City of El Paso, Texas

Hotel Market Analysis

SUBMITTED TO:
The City of El Paso, Texas

SUBMITTED BY:
C.H. Johnson Consulting, Inc.

January 2008

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C.H. JOHNSON CONSULTING, INC.
EXPERTS IN CONVENTION, SPORT AND REAL ESTATE CONSULTING

January 16, 2008

Ms. Lucille Ponticelli
City of El Paso
2 Civic Center Plaza, 1st Floor
El Paso, Texas 79901

Dear Ms. Ponticelli:

Pursuant to our contract**, C.H. Johnson Consulting, Inc**. (Johnson Consulting) has completed its analysis of the hotel market in El Paso, Texas. The attached report of our analysis incorporate all comments received pertaining to prior drafts of the report and includes a brief discussion of our findings in relation to an overall investment strategy for the City of El Paso.

Johnson Consulting has no responsibility to update this report to accommodate events and circumstances occurring after the date of this report. The findings presented herein reflect an analysis of primary and secondary sources of information. Johnson Consulting utilized sources deemed to be reliable, but cannot guarantee their accuracy. Moreover, estimates and analysis presented in this study are based on trends and assumptions, which usually result in differences between the projected results and actual results. Because events and circumstances frequently do not occur as expected, those differences may be material.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service in the areas of making revisions to this report and serving in ad hoc advisory capacities.

Sincerely yours,

C.H. Johnson Consulting, Inc.

C.H. JOHNSON CONSULTING, INC.
Attachment

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II. INTRODUCTION AND EXECUTIVE SUMMARY

INTRODUCTION

C.H. Johnson Consulting, Inc. (Johnson Consulting) was engaged by the City of El Paso, Texas (City) to conduct a review of current business conditions for the hospitality industry in the City, analyze the City's ability to absorb hotel rooms in the downtown corridor, and comment on the broader city-wide area. Johnson Consulting also analyzed the appropriate incentives needed to induce future development. This analysis presents the results of our review pertaining to the request for hospitality project development support in El Paso.

Understanding of the Assignment

The City of El Paso desires to gauge the current strength of the hospitality market in downtown El Paso and determine how much additional supply is supportable, with and without incentives, specifically in boutique, mid-scale and full service convention quality hotels. The City's ultimate goal is to have a strong and attractive downtown, supplemented by a healthy tourism and hospitality industry.

In this analysis, Johnson Consulting establishes targets the City should pursue and provides an assessment of the required action needed to stimulate hotel growth in the City. Analysis of the required subsidy/incentive will be provided for the following property types; mid scale without food and beverage, Miscalled with food and beverage, boutique, luxury, and full-service hotel. This document is intended to provide the City with a framework to help attract appropriate property sizes and types.

Johnson Consulting has worked in the meetings, hotel, tourism, sports, and real estate consulting field for over 25 years. Our staff has conducted over 700 engagements in both the US and abroad. These engagements include planning, market and feasibility studies, tax projections, operational reviews, financial plans, and organizational studies. Land uses we work on include hotels, convention centers, casinos, sports facilities, golf courses, performing arts facilities, residential, retail, and office developments, and specialty niches such as marinas, amphitheaters, and theme parks.

El Paso, Texas

The City of El Paso, TX is located in the far western corner of the state and has a population of 594,700 residents. It is located next to Juarez, Mexico, which has an estimated 1,500,000 additional residents. El Paso is home to Fort Bliss, one of the largest military bases in the country. Under restructuring announced as part of

BRAC 2005, Ft. Bliss is growing and will continue to grow substantially in the years ahead. The base will also be receiving significant investment in technology from the federal government, sparking interest from the private sector. The City of Juarez, Mexico sits directly on the other side of the Rio Grande River and is home to the Maquiladora industry.

Downtown redevelopment efforts have recently surfaced in El Paso in an attempt to make the City a more desirable place to live, work and visit. El Paso's revitalization efforts, *if followed through upon*, are expected to accelerate the downtown area redevelopment efforts. The City of El Paso retained Johnson Consulting to analyze the current hotel market, develop an understanding of how the City is performing today, and to analyze strategies that will help the City perform better in the future.

Our Process

In order to complete our assessment of potential hotel absorption/new development in El Paso, Johnson Consulting performed the following tasks:

- Met with client representatives, and either met with or conducted telephone interviews of others involved in local tourism and economic development, such as City and El Paso Conventions and Visitor Bureau staff members;

- Toured the existing regional and City submarkets, along with specific sites within those sub areas in the City.

Developed an analysis of alternative hotel development products and strategies that should be considered in the future:

- Analyzed the capture rate of demand in the El Paso market, looking at trends, quality of demand and reasons demand is growing or shrinking;

- Studied hotel development trends and patterns in several benchmark cities to determine if they have performed better than El Paso, and if so, why;

- Developed a conceptual Return on Investment model and quantified the following:
  - Target hotel products and analyzed appropriate incentives, if relevant.
  - Analyzed return on investment for various hotel products, given economic conditions in El Paso today, allowing us to determine required incentives to support such hotels.

- Prepared a hypothetical economic and fiscal impact for a hypothetical hotel development, so the City can judge the merits of investing in hotels.
- Commented on the contribution a more healthy hospitality industry could mean to El Paso.
- Developed a suggested basis for the City to judge alternative hospitality investment initiatives.

EXECUTIVE SUMMARY

The competitive landscape of the El Paso lodging industry has shown growth in recent years. Hotel inventory city-wide, since 2001, has increased a net of 326 rooms. During the performance observation period (January 1, 2001 through December 31, 2006), occupancy experienced 4.38 percent growth while ADR experienced just over a 19 percent growth during the evaluation period. Those cities with similar characteristics that have experienced greater hotel room growth during the same period had such growth result primarily from a committed effort to increase downtown area economic development. These cities have stimulated room supply growth through a variety of different initiatives, including building demand generators and subsidizing hotels. Some of the initiatives include: a comprehensive downtown master plan strategy, addition/expansion of convention centers, multi-purpose arenas, stadiums, performing arts centers, down-town residential restoration projects, and mixed-use entertainment developments. El Paso's efforts at similar initiatives are either just beginning to take root or are now available for full utilization.

One key improvement El Paso can make would be to expand the diversity among the supply of hotel products available. The community is primarily attracting economy and limited service properties. In order to attract larger leisure and group demand the City needs pursue greater diversification of product supply. Specifically, an upscale full service property located downtown to serve the convention center is desirable. The City should also target boutique and upper mid scale properties offering food and beverage amenities to appeal to the leisure and business segments. The resort sector, seen in communities similar to El Paso is also absent. The proposed hotel on the new golf course is a product that is in line with being a first entrant in this sector, but it must be executed correctly. Given the current economic conditions in El Paso, public incentives will be needed to ensure development of these properties.

As noted above, El Paso is attempting to enter the resort niche, much like Tucson has successfully done, with the development of a high-end resort/spa at the golf course. This idea is appropriate but does little to address the current issues associated with the needs in the downtown corridor, the primary subject of this study. Currently, downtown El Paso doesn't offer sufficient amenities i.e. dining, shopping, entertainment, etc. that would cause guests to leave the resort campus and spend their time and money downtown. If El Paso takes proactive steps to foster accelerated mixed use development offering leisure demand generators downtown, the resort market can be a contributor to the downtown revitalization.

Research uncovered the El Paso lodging market, while it has improved in recent years, is currently underperforming. Occupancy and average rate growth that has occurred is a product of a vigorous national economy and growth in local businesses and the Maquiladora industry. El Paso's performance simply mirrored that of the lodging industry nationally. It should be assumed that occupancy levels would be strong and continuing positive trends when additions to supply have been limited and the overall economy is growing at an aggressive pace. Average daily rate increases experienced in El Paso are also a product of the current strength in the lodging industry. The City of El Paso is not yet fully experiencing growth unique to their market; it is simply a mirror of what is occurring in the hospitality industry nationally.

It is unlikely that growth on the full service supply side will be absorbed without help from the public sector in the form of subsidies/incentives to bring new demand generators to the market. Hospitality projects are risky ventures, which require large capital budgets and fair returns on investment. It is much easier to build a limited service hotel and pull from the existing base of business rather than induce new demand with a more expensive project. Given the current per key cost and the market conditions it will be very difficult for a developer to achieve a reasonable return on equity, at least 18 percent, without some sort of public funding. This benchmark level of return is an industry standard. If it cannot be achieved in El Paso, given the risk profile of hotels, generally, investors will seek alternative investments. Required subsidy levels to spur hotel development are estimated between nineteen and thirty-eight percent of the capital budget.

When will the need for such incentives end? Incentives will no longer be needed when the City's other economic development efforts to make the community more attractive are fully realized. Investment in collateral attractions causes increased appeal and ultimately causes destinations to be desirable and supportive of investment. It is crucial that El Paso continue to implement elements of the Paso Del Norte (PDN) plan aggressively and pursue other economic development efforts that support a vibrant central city. Once a fulcrum point is reached, incentive requirements will reduce.

The commitment made in December, 2006 by the City for downtown redevelopment in El Paso with the El Paso Downtown 2015 Plan is noble. The City now needs to proactively pursue the vision they have laid out and stimulate economic development with public incentives. The city must take the necessary steps to create/produce the demand generators, which will set the City apart and offer a unique experience in the Southwest region.

In our opinion, the downtown area should target 1,525 new rooms during the next 15 years, depending on an incentive strategy developed by the City and outer actions taken to build demand generators.

A major structural issue that will impact future development is the per diem impact. El Paso has a strong governmental base. It becomes doubly important for El Paso to add to its edges of demand quality in order to reduce the base of per diem demand and attract the more high spending leisure and convention travel.

III. ECONOMIC AND DEMOGRAPHIC FEATURES

ECONOMIC AND DEMOGRAPHIC FEATURES

This section summarizes recent economic development trends and significant changes that have occurred in greater El Paso and how those will affect the hospitality environment in the near term. The most prominent change involves the military sector, which is expected to more than double in size over the next five years and even triple in the years following this initial build up. Such a buildup will spawn private sector investment as well. The university population will also continue to grow at a strong rate as it has over the last five years, particularly with the opening of the medical school in 2009. These trends will play a leading role in what sections of the City are most likely grow, how fast that growth will be and where services will be needed the most to meet expected growth. In addition, other economic and demographic trends will underscore the demand profile for various hotel investments.

Patterns of Development and Transportation

El Paso is located adjacent to the Mexican border – and the City of Juarez – in southwest Texas. This fact, combined with the impact of NAFTA (North American Free Trade Act) and resulting growth in trade, has been responsible for the dynamic growth of the city and region over the last 15 years. El Paso's population has risen to 594,700 and is now comparable in size to such established mid-large metro areas as Memphis and New Orleans (post-Katrina).

Due to El Paso's status as a large gateway to international trade, its transportation infrastructure is well-developed and has expanded in order to meet increased demand for products and services in the region. Interstate I-10 connects El Paso with Las Cruces to the northwest and continues east through Texas to provide direct routes to and from San Antonio and Houston. Major highways also connect El Paso to Austin, Dallas/Fort Worth, Albuquerque, Tucson, and Phoenix. In addition, connections between El Paso and Juárez are well developed, including a bridge that connects the two cities' downtown areas.

In 1998, the City of El Paso completed a $60-million renovation of the El Paso International Airport (EPIA). Eight major airlines, including American, Delta, Southwest, and America West, provide more than 260 nonstop and direct flights through El Paso on a daily basis. In addition, five all-cargo airlines and several freight forwarders provide cargo services at EPIA, and the region's trade growth has led to more than a twofold increase in the total volume of air cargo through EPIA since 1990. In addition, five railways, including Amtrak and Chihuahua Pacific, which serves Mexico, provide main line operations through El Paso.

Military Presence

The Fort Bliss Military Base is the largest employer in the City of El Paso. It employs a total of 19,000 people, 6,500 of which are civilians. Roughly 14,000 families live near or on the base due to a family member serving in the army. Fort Bliss was not only spared by the military base closing commission in 2005, but was slated for an expansion that began almost immediately with the addition of 5,000 troops in 2006 and 2007. In the next four years, Fort Bliss plans to grow for 36,000 to 74,000 troops as the 1st Armored Division is relocated to the base. Approximately 60,000 family members are expected to arrive with those soldiers. The military base expects most of the families to relocate to either the east side or the northeast side of the City.

Economic Indicators

Per Capita Income (PCI) is determined by dividing the aggregate income of a geographic area by the total population in that area and is an excellent indicator of a city's economic health. Table 3-1 depicts the Per Capita Income (PCI) of El Paso's Metropolitan Statistical Area (MSA) and compares it to the MSA's of Albuquerque, Tucson, San Antonio and Fort Worth from 2000-2004. In 2004, El Paso's MSA had a Per Capita Income of $21,829, while the comparable cities averaged $30,286, an $8,457 variance. However, it should be noted El Paso's variance from the average of comparable cities decreased by seven percent from -$9,125 to -$8.457 over the five year period shown.

Table 3-1

Per Capita Income - Peer Cities (MSA)

	2000	2001	2002	2003	2004
United States	$29,845	$30,574	$30,810	$31,484	$33,050
Albuquerque, NM (MSA)	$25,848	$27,984	$27,852	$28,339	$29,453
Tucson, AZ (MSA)	$24,175	$24,833	$24,994	$25,777	$27,244
San Antonio, TX (MSA)	$26,751	$27,046	$27,023	$27,773	$28,946
Dallas-Fort Worth-Arlington, TX (MSA)	$33,972	$34,299	$33,959	$34,109	$35,502
Average of Peer City MSAs	**$27,687**	**$28,541**	**$28,457**	**$29,000**	**$30,286**
El Paso, TX (MSA)	$18,562	$19,648	$20,471	$20,841	$21,829
Variance	**-$9,125**	**-$8,893**	**-$7,986**	**-$8,159**	**-$8,457**

Source: bea.gov

El Paso has two unique advantages that help offset the lower per capita incomes:

- the presence of Juarez and its residents, and
- a favorable cost of living profile.

While the former is difficult, if not impossible to quantify, there is no doubt El Paso's neighbor contributes to retail sales and other aspects of the El Paso economy. In addition, this proximity injects Hispanic cultural elements, which continue to be woven into the economic development fabric of El Paso in much the same way they have been in San Antonio. The other advantage is easily quantified. Table 3-2 below shows that El Paso's cost of living index is the lowest of the five cities we previously compared (i.e. Albuquerque, Tucson, San Antonio, Fort Worth and El Paso).

Table 3-2
2004 Cost of Living

City	Cost of Living %
Albuquerque, NM	100.8
Fort Worth, TX	92.4
San Antonio, TX	95.2
Tucson, AZ	99.2
National Average	***100***
Comp Average	***96.9***
El Paso, TX	***90.6***

Source: city-data.com

Effective Buying Income (EBI) is an individual's disposable income, consisting of salary and wages, dividends, interest, profits, etc, less all government taxes. It is defined as income less personal tax and non-tax payments—often referred to as "disposable" or "after-tax" income. EBI is an effective test of an economy, depicting the financial health of the citizens in an area, and measuring how difficult it would be to support growth.

Table 3-3 below compares El Paso to the selected set of comparable cities.

Table 3-3

Effective Buying Income (City)

	Population	Total EBI ($000's)	EBI/ Population	Median Household EBI	Total Retail Sales	Buying Power Index	Hotel Rooms in Market	Hotel Rooms/ Population
San Antonio	1,228,700	$20,057,415	$16,324	$35,387	$17,523,747	0.3844	29,978	2.44%
Fort Worth	596,800	10,216,890	17,119	36,078	10,043,836	0.2018	11,300	1.89%
Albuquerque	482,500	9,257,993	19,188	37,723	9,257,993	0.1802	15,760	3.27%
Tucson	521,000	7,681,158	14,743	30,334	7,681,158	0.1646	15,442	2.96%
Average	**707,250**	**$11,803,364**	**$16,844**	**$34,881**	**$11,126,684**	**0.2328**	**18,120**	**2.64%**
El Paso	**594,700**	**$8,116,103**	**$13,647**	**$30,176**	**$7,626,924**	0.1660	7,621	1.28%
Variance	**(112,550)**	**($3,687,261)**	**($3,196)**	**($4,705)**	**($3,499,760)**	**(0.0668)**	**(10,499)**	**(1.36%)**

Source: Sales and Marketing Management 2005

The table lists population, total EBI, Population over EBI, median household EBI, total retail sales, Buying Power Index, number of hotel rooms in the market, and hotel rooms per citizen. The Buying Power Index (BPI) is used to understand what percent of the nation's disposable income, retail sales, and population is in a given city, market metropolitan area, state, or region.

El Paso falls below the mean in each of the comparable categories listed in Table 3-2. El Paso's population of around 594,700 has approximately 100,000 fewer people than the average city in the comparable group. El Paso's total retail sales were $3.5 million less than the average city in the comparable set, and had a lower Buying Power Index as well. El Paso's BPI is .166, compared to .233 of the comparable cities. This is significant because it shows that the City has a much lower disposable income and retail sales per population.

Possibly the most startling data set in the above table is the hotel rooms in the market column. El Paso's 7,621 hotel inventory is much less than half that of the 18,120 rooms average for the cities we compared. El Paso has 10,499 fewer rooms than the average comparable city. The last column, hotel rooms per population, illustrates that El Paso has 48% fewer hotel rooms per citizen than San Antonio, Fort Worth, Albuquerque and Tucson on average. Given the size of the city, El Paso needs to increase its Hotel Room/Population ratio to increase economic and tourist growth.

Corporate Presence

Corporate presence is an important contributor to hotel occupancy because local businesses generate both business travel and meeting room demand. El Paso was recently ranked as the number one midsized city to start and grow a business by

Entrepreneur Magazine. Table 3-4 lists the largest private employers in El Paso, excluding retail and the public sector.

Table 3-4

Large Private Employers in El Paso, Texas 2007 (Excluding Retail)

Company Name	Employment Count	Industry	Company Name	Employment Count	Industry
T&T Staff Management LP	4,041	Employment Services	MSD Ignitions - Autotronic Controls	500	Manufacturing
Echo Star Communications Corp	3,000	Technical Support Center	Phelps Dodge	500	Manufacturing
Tenet Hospital Ltd	2,957	Health Care and Social Assistance	Raytheon Technical Services	475	Profession, Scientific, and Technical Services
Readyone Industries Inc	1,500	Manufacturing	Border Steel Inc	474	Manufacturing
RM Personnel	1,325	Employment Services	Alltel	450	Technical Support Center
Del Sol Medical Center	1,300	Health Care and Social Assistance	Leviton Manufacturing Co Inc	432	Manufacturing
Las Palmas Del Sol Regional	1,000	Health Care and Social Assistance	State Farm	425	Inbound Customer Service Center
El Paso Electric Co	987	Utilities	AT & T	414	Inbound Customer Service Center
Redcats USA Inc (Brylane)	980	Inbound Customer Service Center	Cingular	400	Inbound Customer Service Center
Stoneridge Electronics	900	Manufacturing	Enlight Nevada Inc	400	Manufacturing
Outreach Health Community Care Services	800	Health Care and Social Assistance	Fred Loya	400	Finance and Information
Toro	800	Manufacturing	Enthuria	385	Manufacturing
West Telemarketing	800	Telemarketing	El Paso Times	365	Information
Union Pacific Railroad Co Inc	746	Transportation	Cardinal Health	352	Health Care and Social Assistance
Harman-Becker Automotive Systs	651	Manufacturing	Helen of Troy LP	350	Manufacturing
Verizon	650	Inbound Customer Service Center	Western Refining	350	Manufacturing
Always Caring Home Care Svcs	650	Health Care and Social Assistance	Boeing	325	Manufacturing
Datamark Inc	650	Information	Magnolia Coca-Cola Bottling	320	Manufacturing
GC Services	650	Inbound Customer Service Center	Delphi	311	Manufacturing
Hoover Company	615	Manufacturing	Federal-Mogul Corp	301	Manufacturing
Telerx	580	Inbound Customer Service Center	Smurfit-Stone Container Corp	295	Manufacturing
ADP	550	Business Support Center	Jones Apparel of Texas II Ltd	275	Manufacturing
Affiliated Computer Sciences Corp	539	Inbound Customer Service Center	Elcom Inc	250	Manufacturing
Promex Plastics	500	Manufacturing	Dal-Tile	240	Manufacturing
Itsquest Inc	500	Employment Services	Tony Lama Factory Inc	225	Manufacturing

Source:

Source: List generated by Texas Workforce Commission and verified by El Paso Regional Economic Development Corporation, February 2007

It is clear El Paso has a strong local corporate presence. The largest private employer in El Paso is T&T Staff Management LP with 4,041 employees, with Echo Star Communications Corp, Tenet Hospital Ltd., Readyone Industries Inc., and RM personal rounding out the top five. Four of the top 11 private employers in the City are in the Health Care industry. The two most prevalent industries in the table are manufacturing and inbound customer services.

Ciudad Juarez, Chihuahua, Mexico and the Maquiladoras

Ciudad Juárez plays an important role within the greater El Paso region. Juárez, with a population estimated at over 2.0 million, is the largest city in the state of Chihuahua and the fourth largest in Mexico. El Paso and Juárez combine to form the largest consolidated community along the 2,000-mile border. Many residents cross the border each day to work or shop, and each city relies heavily on customers from the other side of the border. The Maquiladora resides in Juárez. Maquiladoras are generally manufacturing based with headquarters in other markets. An estimated 1.2 million people work in the manufacturing industry in Juárez.

Listed in Table 3-5 below are the largest Mexican Maquilas in Juárez. Over 40,000 employees work at these Maquilas, indicating that there is a strong workforce directly across the border. The largest Maquila is Scientific Atlanta de Mexico S.A, employing a total of 5,000 people.

Table 3-5

Largest Maquilas Near El Paso

Plant Name	Total Employees
Scientific Atlanta de Mexico S.A. de C.V.	5,000
RCA Componentes de Mexico, S.A. de C.V.	4,118
EDM S. de R.L. de C.V.	4,000
Lear Mexican Trim Operations Planta La Cuesta, S. de R.L. de C.V.	4,000
Lear Mexican Trim Operations Planta San Lorenzo, S. de R. L. de C. V.	3,500
Autopartes y Arneses de Mexico #7 Aamsa	3,286
ADC de Juarez, S. de R.L. de C.V.	3,000
Epson de Juarez, S.A. de C.V.	3,000
Manufacturas Avanzadas, S.A. de C.V.	3,000
Lear Corporation Planta Monarca #160 S. de R.L. de C.V.	2,800
Rio Bravo Electricos # 7, S.A. de C.V.	2,800
Lear Mexican Trim Operation Planta Rio Bravo. S. de R.L. de C.V.	2,774
Total Employees	**41,278**

Source: City of El Paso, Economic Development Department.

University Presence

Table 3-6 below lists the top Colleges and University in the El Paso Area. El Paso Community College has an enrollment of nearly 25,000 students. The second largest institution is the University of Texas, El-Paso with an enrollment of 19,264 followed by New Mexico State University with 16,072. El Paso is also home to a campus of Texas Tech University Health Services Center (TTUHSC) with its residency programs in eight accredited fields that enroll 110 students. In 2009, TTUHSC, El Paso will expand its School of Medicine residency program to a full four year medical school with expected enrollment to double to over 200. Total current enrollment for the area is approximately 60,000 students. In addition to the El Paso-based colleges and universities, three institutions - the Universidad Autónoma de Cuidad Juárez, the Instituto Tecnologico de Cuidad Juárez, and ITESM - are located in Juárez.

The number of college students in the area is important because they represent an opportunity for the local businesses to retain talent upon graduation. Hotels experience demand from student visits, parental visits, graduations, athletic competitions, events and other activities at the university. Meetings and conferences from local academic institutions are additional demand generators. Provided below in Table 3-6 is an overview of colleges and universities in the El Paso area and their enrollment.

Table 3-6

Colleges and Universities in the El Paso Area

Institution	Enrollment
El Paso Community College	25,000
University of Texas-El Paso	19,264
New Mexico State University	16,072
Total Enrollment	**60,336**

Source: University Fact Books from each school

Tourism in El Paso

Tourism in the State of Texas has an immense economic impact, totaling around $49.2 billion in revenue in 2005, up almost 11 percent from the year before. Since 1995, tourism in Texas has increased by 61 percent, now creating jobs for nearly 514,000 people, and affecting 452,000 with secondary impact. Table 3-7 (on the following page) provides a five year summary of the most visited attractions in the State of Texas. It is clear El Paso lacks tourist attractions to help lure visitors from other destinations in the State. The Alamo and the River Walk, both in San Antonio, have been the top two attractions in Texas from 2001-2005. Although El Paso recently added a new Butterfield Trail Golf Course and the Sun Valley Factory Shoppes are set to open later this year, El Paso must still create more demand generators and attractions to gain market share and increase its stake in the $50 billion industry. El Paso still lacks cultural destinations, theme parks, distinct shopping areas, and an overall reputation as a tourism city. It will be easier for the city to support hotel growth if new tourist attractions are introduced.

Table 3-7

Travelers Top Attractions Survey 2001-2005 (Texas)

Attraction	2005	2004	2003	2002	2001
Alamo	1	1	1	2	2
(River Walk) Paseo del Rio	2	2	2	1	1
San Marcos Outlet Malls	3	4	3	3	3
Sea World of Texas	4	6	6	7	7
Six Flags Over Texas	5	3	4	5	5
State Capitol	6	7	5	4	6
South Padre Island	7	5	7	NR	NR
Padre Island National Seashore	8	10	15	5	4
Moody Gardens	9	17	11	8	9
Houson Space Center	10	13	13	23	13
Texas State Aquarium	11	14	19	21	17
Texas State Fair	12	NR	NR	NR	NR
Fiesta Texas	13	8	8	14	8
San Antonio Zoo	14	9	9		14
Fort Worth Zoo	15	11	21	9	15
Fort Worth Stockyards	16	NR	NR	NR	NR
Schlitterbahn (New Braunfels)	17	15	16	10	16
Minute Maid Park	18	19	17	11	11
Cabela's (Buda)	19	NR	NR	NR	NR
Texas Motor Speedway	20	18	18	18	25
USS Lexington	21	20	22	18	20
Ameriquest Field	22	22	12	11	12
San Antonio Fiesta Festival	23	NR	NR	NR	NR
Texas Stadium	24	21	20	18	19
Palo Duro Canyon	25	NR	NR	NR	NR
LBJ Presidential Library	26	27	25	15	27
Bob Bullock Texas State History Museum	27	NR	NR	NR	NR
Cabela's (Fort Worth)	28	24	NR	NR	NR
Schlitterbahn (South Padre Island)	29	NR	NR	NR	NR
George Bush Presidential Library	30	25	23	27	23

NR = Not Ranked

Source: D.K. Shifflet & Associate, Office of the Governor Economic Development & Tourism, LOH 9.15.06

Tourism and Hospitality go hand in hand, with both industries feeding and benefiting from each other. In Table 3-8 that follows, Johnson Consulting selected key tourism components studied and ranked by an expert secondary source. We then analyzed how El Paso fares against the comparable city set and the United States. The categories analyzed in the table below are: Zoo/Aquarium, National Parks, number of outlet malls, professional sports presence, museums, amusement parks and golf courses. It is a very balanced mix of demand generators that a typical city possesses, enabling us to see which areas El Paso may lack.

Table 3-8

City Comparison of Tourism Assets

	Convention Center SF	Zoo/ Aquarium Rating	National Park Rating	# of Outlet Malls	Pro Sports Rating	Museum Rating	Amuse-ment Park Rating	Golf-Course Rating
U.S. Average	**-**	***3***	***3***	***2***	***4***	***6***	***3***	***4***
San Antonio	440,000	7	2	3	6	9	9	5
Fort Worth	253,226	7	1	5	8	7	9	7
Albuquerque	600,000	6	5	0	3	7	5	3
Tucson	205,000	5	10	1	3	8	2	4
Average	**374,557**	**6.25**	**4.50**	**2.25**	**5.00**	**7.75**	**6.25**	**4.75**
El Paso	103,300	5	1	1	2	6	4	3
Variance	(271,257)	(1.25)	(3.50)	(1.25)	(3.00)	(1.75)	(2.25)	(1.75)

Source: Cities Ranked and Rated, Bert Sperling & Peter Sander

Ratings are listed on a scale of 1-10 (with 1 the worst and 10 best) based on availability, proximity, and the overall quality of the facilities. The only category that is not a ranking for the indicated tourism asset is the outlet malls category, which shows the actual quantity of malls. In addition, total convention center square footage is listed below to include corporate group and association business through tourism.

In Table 3-8, El Paso is clearly behind the comparable city set in each category, including convention center space. El Paso has 103,300 square feet of total convention space, 271,257 square feet less than the average of the comparable set. National parks, professional sports and golf courses were El Paso's worst categories; ranking 3 to 4 points lower than the compared set average. El Paso scored around two points lower in the number of museums and amusement parks. El Paso faired the best in the Zoo/Aquarium category, falling only 1.25 points short of the average and with the upcoming addition of the 110 stores of Sun Valley Factory Shoppes (which is reflected in the above Table) El Paso will improve in this category as well . However, it is clear El Paso remains behind the curve in tourism demand generators.

Arts, Culture, and Entertainment

In addition to developing new tourist destinations and demand generators, El Paso must also utilize their current assets to maximize growth. It is important to use the resources that are already present as a foundation for growing the marketplace. The El Paso/Juárez area has an expanding supply of cultural, entertainment, and leisure activities for residents and tourists. The region is host to events and attractions, including, but not limited to, the following:

- ***Historic Plaza Theatre*** – reopened in 2006 after a $38 million dollar renovation saved the eighty year old "Plaza" from a date with the wrecking ball. The 2,100 seat venue has a 10-story stage house, which gives the Plaza the capacity to host all forms of performing arts including large traveling Broadway shows.

- ***Union Plaza*** – in downtown El Paso has completed a $53 million improvement project, according to The Goodman Corporation. The 14-block Union Plaza district includes entertainment and dining, expansion of the convention center, retail, commercial, and residential development, new cultural and public facilities, and transit, parking, and pedestrian improvements.

- ***The El Paso Museum of History*** – recently opened its new home in a building funded by bonds approved by voters in 2000. Formerly known as the Cavalry Museum, it was renamed in 1980 to reflect a change in focus to cover over 400 years of regional history.

- ***The El Paso Museum of Art*** – is now located in downtown El Paso adjacent to the Arts Festival Plaza. The museum showcases the famous Kress Collection and numerous other permanent and temporary exhibits. The facility also contains an amphitheater, library, and classrooms.

- ***El Museo de Arte de Historia*** – opened in Juárez in 1964 and exhibits artifacts from throughout Mexico's history, from its earliest inhabitants to modern artists. The museum also hosts film series, lectures, and concerts.

- ***The El Paso Holocaust Museum and Study Center*** – will soon move downtown and will contain artifacts, documents, videotapes, and other items recovered from World War II-era concentration camps and communities. Past speakers at the Holocaust Museum include Henry Kissinger and Mikhail Gorbachev.

- ***El Museo de El Chamizal de Arqueologia*** – features Colombian replicas, a sculpture garden, a photography exhibit, and contemporary art, in addition to offering artistic and cultural events.

- ***The Insights Museum*** – located in downtown El Paso, is an interactive museum with more than 80 hands-on science and technology exhibits.

- ***The Chamizal National Memorial*** – commemorates the peaceful resolution of a 1963 U.S.-Mexican border dispute. The memorial site in Juárez also includes a 55-acre park, a museum, the Los Paisanos Gallery, an outdoor amphitheater, and a 500-seat theater.

- ***El Paso Opera House*** – presents opera productions in the El Paso Region to develop and expand opera appreciation and involvement through education and outreach programs.

- ***Alfresco Fridays*** – presented by the El Paso Arts and Culture Department at the Convention and Performing Arts Plaza, hosts concerts ranging from Classical & Contemporary to Classic Rock to Salsa and Jazz every Friday.

- ***Hueco Tanks State Park*** – is 20 miles east of El Paso. The park contains cave paintings from 1500 BC and world-class rock climbing and hiking opportunities.

- ***Plaza Monumental*** – with 17,000 seats, is the fourth largest bullfighting arena in the world. The facility hosts some of Mexico's best bullfighters during its season (April through September).

- ***Amigo Airshow*** – held at the Biggs Army Airfield each October, is recognized as one of the nation's best air shows. The event includes military and civilian aircraft, live entertainment, and performances by the world's best flying teams.

- ***Annual International Arts Exhibition*** – takes place every October and is the largest in the state. Over 600 artists participate every year from Texas and New Mexico.

- ***Sun Bowl Stadium*** – is home to the University of Texas- El Paso (UTEP) Miners football team. Depending on the season the Miners can have up to eight home games scheduled in the 51,000 seat stadium. Currently UTEP plays in Conference USA with schools from all over the south and Midwest. The Sun Bowl also hosts an annual post-season football bowl game**.**

Conclusion

The City of El Paso is a community that is growing, but despite recent additions and improvements the City can still benefit greatly from more and diverse entertainment options and leisure demand generators capable of attracting visitors from a regional/national area. Between the growth in passenger traffic at the airport and the evolving, albeit slow, revitalization of downtown, El Paso is increasingly offering a favorable situation for the development of a downtown hotel. El Paso's location near the border has enabled it to become a large gateway to international trade, as well as a crossroads to many larger markets. Being a hub for international travel, El Paso should seize the opportunity as being an ideal place for travelers to visit. The convention center is small and has an inadequate downtown room inventory which hinders the CVB staff from selling the facility to large regional groups. With recently remodeled performing arts centers and museums, more visitors will be attracted to downtown and may want to stay near all the attractions when visiting, if more and better rooms are offered. However, the City should continue to provide incentives, direct funding and support to public/private partnerships that have been instrumental in recent improvements, such as the Plaza Theatre renovation and new Museum of History.

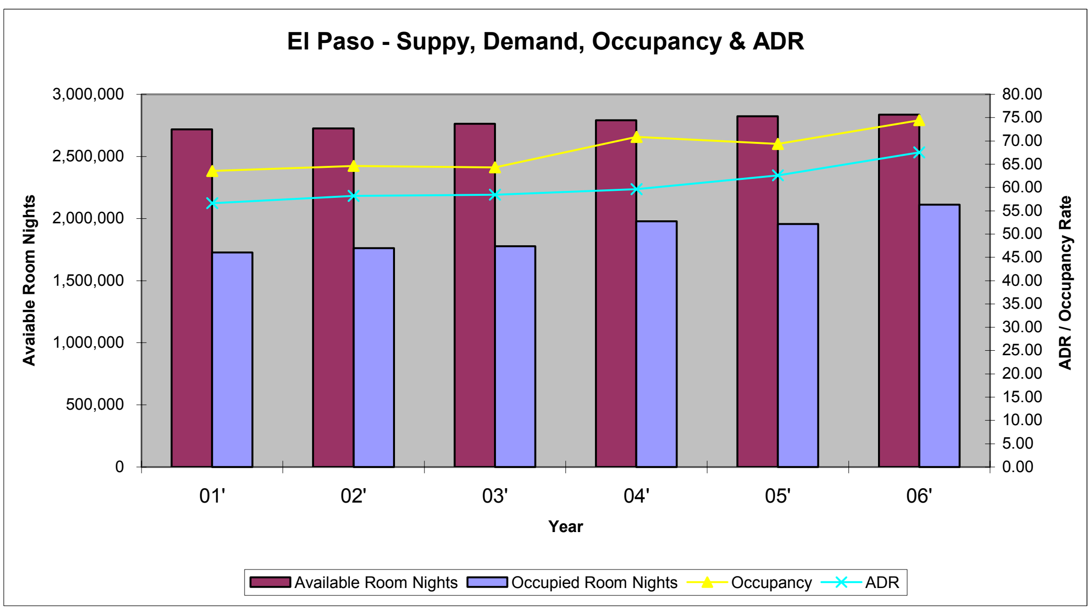
IV. ANALYSIS OF THE CITY HOTEL MARKET

ANALYSIS OF THE CITY HOTEL MARKET

After a number of years of limited growth, the City of El Paso has experienced improved growth and performance in the hospitality industry in recent years, but opportunities for further improvement still exist. Room supply, during the period since 2001, grew at an average annual growth rate (AAGR) of .72 percent a net increase of 326 rooms or 118,990 available room nights (annually). Supply grew from 7,447 rooms to 7,773.

Provided below in Table 4-1 is a summary of the supply, demand, occupancy and average daily rate (ADR) in the City during the six year period.

Table 4-1



	01'	02'	03'	04'	05'	06'	
Available Room Nights	2,718,237	2,725,901	2,761,835	2,790,920	2,821,978	2,837,129	
Occupied Room Nights	1,726,566	1,761,210	1,776,953	1,977,338	1,957,475	2,111,819	
Unoccupied Room Nights	991,671	964,691	984,882	813,582	864,503	725,310	
Occupancy %	63.52	64.61	64.34	70.85	69.37	74.44	
ADR	$56.64	$58.22	$58.47	$59.65	$62.59	$67.55	
Annual Growth							**AAGR**
Available Room Nights		0.28%	1.32%	1.05%	1.11%	0.54%	0.72%
Occupied Room Nights		2.01%	0.89%	11.28%	-1.00%	7.88%	3.41%
Unoccupied Room Nights		-2.72%	2.09%	-17.39%	6.26%	-16.10%	-5.08%
Occupancy %		1.72%	-0.42%	10.12%	-2.09%	7.31%	2.68%
ADR		2.80%	0.42%	2.02%	4.94%	7.91%	2.98%

Source: Johnson Consulting

As mentioned above, El Paso has seen less than optimal supply growth during this period while experiencing moderate increases in demand and ADR. Occupied Room nights grew at an average annual rate of 3.41 percent and ADR grew at an average annual rate of 3 percent (growth is expressed in nominal rates). Assuming modest inflation of 1.75 percent during the period, real ADR growth is 1.56 percent annually.

On the surface, it appears that occupancy increased approximately 10 percentage points during the period; however this was accomplished with almost no increase in supply. It should be expected that occupancy rates increase in markets where supply remains stagnate, the general economy continues to grow nationally and strong business conditions exist locally. Growth experienced in El Paso's ADR (7.91 percent) during 2006 is slightly greater than the national average. Smith Travel Research data reports that ADR's increased 7 percent nationally during 2006. The gains seen in the El Paso market simply mirrored the US lodging industry; it was not a result of new demand generators within the City or broader community but was following the trend found in the entire US lodging market. Actually, El Paso falls well behind national trends, as very few net rooms have been added anywhere around the City. No upper mid-scale or full service properties have been added.

Comparable City Hotel Performance

Johnson Consulting has researched a set of comparable facilities to provide evidence supporting the need for further economic development in downtown El Paso. The comparable cities are currently experiencing better performance and greater growth in hospitality and tourism, not from purely organic growth, but rather from successful implementation of radical and proactive economic development strategies.

Johnson Consulting selected a set of peer cities to provide a benchmark for the El Paso hotel market. The cities were selected due to similarities in geographic location, population, and efforts the city has made to stimulate hotel growth in their market. The selected cities are:

- San Antonio, Texas,
- Fort Worth, Texas,
- Tucson, Arizona, and
- Albuquerque, New Mexico.

The selected cities have experienced strong performance in their city-wide hotel markets. Provided below in Table 4-2 is a summary of the comparable cities city-wide hotel market growth from January 1, 2000 through December 31, 2006.

Table 4-2

Summary of City-Wide Hotel Market Growth - Years 2001-2006

City	Supply	Demand	Room Revevenues	Occupancy	Average Daily Rate	Rev PAR
San Antonio	6.5%	16.6%	33.4%	9.7%	14.0%	24.8%
Fort Worth	2.0%	15.9%	39.4%	13.6%	20.3%	36.7%
Tucson	6.7%	17.9%	35.0%	10.5%	14.5%	26.5%
Albuquerque*	9.4%	18.4%	32.1%	8.2%	11.6%	20.8%
Average	6.1%	17.2%	35.0%	10.5%	15.1%	27.2%
El Paso	4.4%	22.3%	45.9%	17.2%	19.3%	39.8%

**Albuquerque hotel data is of CBD only.*

Source: Smith Travel Research, Johnson Consulting

As seen above, the greatest discrepancy in the hotel market performance between El Paso and the selected cities exists in hotel supply growth. Hotel supply growth in comparable cities average to 6.1 percent, while growth in El Paso is only about 4.4 percent during the evaluation period. On the surface, the El Paso lodging industry appears healthy relative to the selected cities, however, strong performance in demand, room revenue, occupancy, average rate and RevPAR results in part from the lack of additions to supply.

As mentioned previously, El Paso (city-wide) has been experiencing occupancy, ADR and RevPAR growth since 2001 with less net increase in supply compared to the other cities; El Paso added 326 or 4.38 percent new rooms to supply during the five year period. However, during this time period, the general economy in the United States has been experiencing vigorous growth. As such, El Paso's increase in occupancy is apparently more a result of the economic conditions of the US during the period than induced growth as a result of the efforts of the city/county. During this period, the city/county hasn't until very recently added additional leisure demand generators to the area or created organic room night growth. This has not been the case for the selected cities.

One other factor that contributed to inflated market wide performance during 2006 pertained to the military presence in the market:

- 300 rooms occupied by National Guard soldiers who were living off base. This helped El Paso achieve 74.4 percent city-wide occupancy. On December 1, 2006 the soldiers vacated the hotel rooms they had been occupying and returned to Fort Bliss.

- Removing the 100,200 room nights the off-base soldiers used from annual demand provides a more accurate picture of business/corporate, group and leisure demand the city is actually generating.

- The revised 2006 occupancy (without National Guard troop lodging) in El Paso is 70.9 percent and the revised six year average is 66.9 percent.

Provided below in Table 4-3 is a summary of hotel rooms within a half mile radius of each city's convention center. The selection criterion for the room count was that each hotel needed to be within "reasonable walking distance" from the convention center.

Table 4-3

Summary Downtown Hotel Supply and Population

City	Downtown Hotel Supply	Population	Population/ Downtown Hotel Rooms
Fort Worth	1,400	596,800	426
Tucson	863	521,000	604
Albuquerque	600	482,500	804
Average	954	533,433	559
El Paso	**469**	**594,700**	**1,268**
Variance	(485)	61,267	709

Note: Data on San Antonio is not available.
Source: Respective CVBs

As seen above, El Paso's "downtown" inventory consists of 469 rooms. The selected cities' "downtown" hotel rooms range from 600 in Albuquerque to 1,400 in San Antonio. The average of the selected cities is 954 rooms. Johnson Consulting measured the supply of downtown hotel rooms, in close proximity to the convention center, relative to population in the MSA. El Paso currently has one downtown hotel room for every 1,268 people. The average of the selected cities is one hotel room for every 559 people. This alarming ratio highlights the lack of supply in El Paso's "downtown" market. The data presented in Table 4-2 and Table 4-3 indicates a need for additional lodging in El Paso, especially in the "downtown tract."

The data provided in Table 4-2 and Table 4-3 provides evidence that El Paso, particularly downtown, currently is underserved by the lodging industry relative to the selected cities. However, this data doesn't explain why El Paso's lodging market is underserved. To provide insight explaining the condition of the market, Johnson Consulting interviewed local hotel general managers and members of the El Paso Hotel and Motel Association.

Demand Generators

El Paso experiences very strong occupancy and ADR (especially by the airport) Monday, Tuesday and Wednesday nights with the majority of the properties in the city at 80 to 100 percent occupancy. This demand is generated almost entirely from the corporate/business segment. The major drivers of this demand are the Maquiladora industry, Fort Bliss and several large Fortune 500 businesses such as Johnson & Johnson and Electrolux. Business travelers that come as a result of the Maquiladora industry tend to stay at hotels on the US side of the border because of English speaking staff and transactions are in US currency.

According to data provided by Smith Travel Research, once the majority of business travel has vacated El Paso on Thursday afternoon the hotels struggle to attain 50 percent occupancy through the weekend. The City currently lacks a sufficient number of demand generators to induce more people to stay in the City over weekends and holidays. Currently, although making strides in the right direction, such as, the new History Museum and El Paso doesn't offer a wide enough assortment of cultural, recreational, retail and other products to entice the leisure traveler to select El Paso over another leisure destination.

As discussed previously, El Paso is somewhat of a "landlocked island". The location at the far western corner of the state removes it from the larger population blocks and makes travel access more difficult. El Paso does have a large population of 594,000 and the city of Juarez, with a population of 2 million people, is located less than a mile away in Mexico.

El Paso's current challenge is two pronged. The City needs to identify a way to take advantage of the existing population as a means of spurring economic development and to create "non-organic" growth through new demand generators. General Managers from local hotels suggested that it is not the lack of hotel rooms in downtown El Paso or the county that is hurting the city in the short run, but rather a lack of demand generators existing to bring people to El Paso.

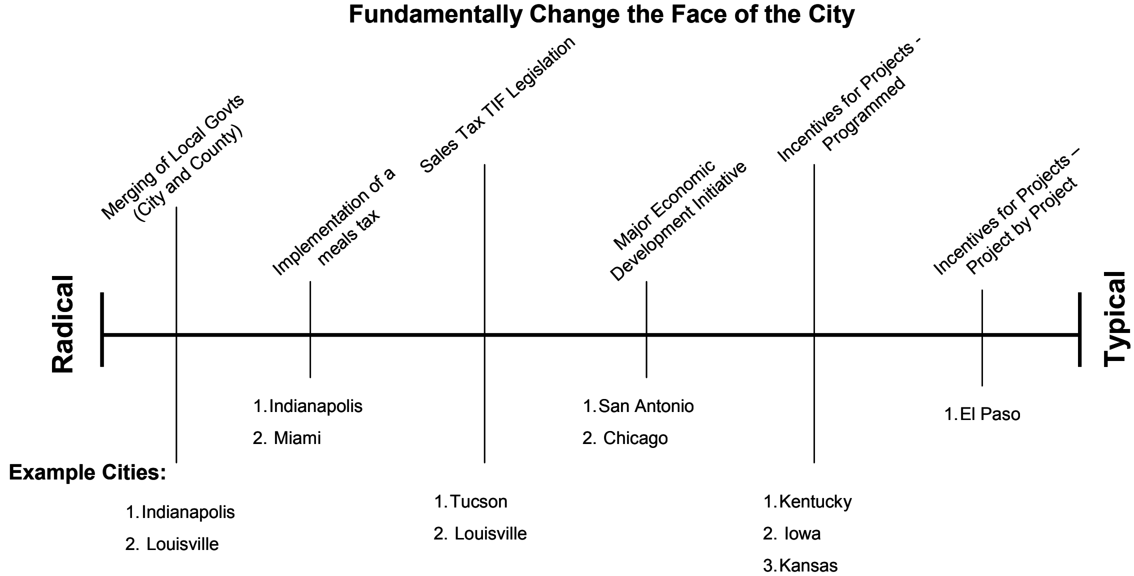
The GMs felt the market will have difficulty supporting additional growth in the immediate future unless it comes from weekend visitation. To stimulate weekend visitation the City/County needs to continue to create additional leisure demand.

Tools Used to Stimulate Economic and Hotel Growth

In other markets, cities have taken proactive steps to spur economic development, which in turn serves as the catalyst for supporting additional room supply growth. These "tools" were developed to aid cities with underperforming assets and help stimulate economic development in the community.

Johnson Consulting has provided a diagram which highlights the tools cities/states have used to stimulate growth in their market and transform their city. These tools have been measured on a scale where they are considered "radical" on one end and "typical" on another. This diagram provided below in Figure 4-1 is intended to provide the reader with an idea of what other governments have done to help jump start the process of improving growth.

Figure 4-1
Tools Cities Have Used To Stimulate Economic Growth and Fundamentally Change the Face of the City



There are a number of ways local governments can impact how quickly change occurs. Figure 4-1 highlights six different actions, which result in "non-organic" economic growth.

- The most radical of the actions profiled is the merging of local governments at the city and county levels. Merging these two arms of local government ensures that the city and county are making decisions in the best interest of both. This action eliminates a level of bureaucracy and power struggles between these entities which can hinder or extinguish projects.

- Cities have implemented special taxes to help raise additional funds to invest in their markets. Indianapolis and Miami implemented a meals tax to which individuals who choose to dine out are subject. The incremental funds from this tax have helped fund public improvement projects and provide financial incentives for economic development. Oklahoma City implemented a temporary one percent sales tax to build up a "war chest" of public funds to be used in designated areas of the City on public improvements and public/private investment in development in those areas. It is important to note that a meals tax is a voluntary tax, individuals choose to pay this tax when they make a decision to dine out. This is not a mandatory tax. The Oklahoma sales tax on the other hand required voter approval to be put into effect and was in essence mandatory albeit temporarily once approved.

- Tax Increment Financing (TIF) is a widely used tool, which provides a reasonable return on equity for developers. Using a TIF to stimulate economic development is a moderately radical action local governments can take. This usually requires cooperation between the county and state. This tool is used in conditions where the market may not necessarily support the investment needed to justify large scale developments. Tucson and Louisville have both used TIFs to stimulate mixed-use entertainment developments and hotel projects. El Paso recently added a TIF incentive to its array of options available to spur development, which it has begun to and needs to continue to aggressively utilize.

- Major economic development initiatives such as the Riverwalk in San Antonio, Bricktown District in Oklahoma City or Millennium Park in Chicago are substantial financial undertakings by those cities, but can provide substantial economic impact to the neighboring areas. These projects are done to help stimulate "visitor appeal" and generate demand. Typically, projects such as these are done as public/private joint ventures.

- Standardized or programmed incentive legislation is a slower, but effective, tool used to generate development. States such as Kentucky have developed legislation specifically targeting tourism development. In this legislation, projects that satisfy a set of requirements can qualify for a sales tax credit. These are approved on a project by project basis, which hinders significant short-term change. Over the course of time, if the projects are programmed correctly and done on a similar scale and quality, it can slowly change the market.

- The least prevalent tool a local government can use (in the diagram above) is a broad, unclear incentive program that is designated and approved only when a project is presented. This option overall is very weak and is much different from programmed incentive legislation in that there is not pre-determined policy in place and specifically marketed to attract projects. This is among the least effective tools local government can use to stimulate economic growth and development.

Although, El Paso has recently developed various programmed incentives, the City could benefit from more widespread utilizations of these tools and/or the creation of more aggressive, creative tools. The City of El Paso has not kept pace with its competitors. Other cities are taking bold, proactive steps to stimulate economic growth through creative legislation. These advances in economic development in the city have in turn spurred growth in their lodging industry. El Paso will not be able to absorb a significant amount of additions to hotel supply until the City has demand generators in place to fuel the growth.

Examples of Public Incentives Used to Stimulate Downtown Redevelopment

Despite recent advances, Downtown El Paso still suffers from a lack of leisure/entertainment offerings. The downtown area has moderately vibrant crowds during business hours, but this atmosphere still dissipates somewhat in the evening once the business day concludes, and over weekends. Hotels in the downtown corridor experience strong occupancy during Monday through Wednesday and experience modest occupancy during weekends.

To stimulate absorbable hotel growth downtown, the City needs to take proactive steps to ensure new economic development projects occur. Tourists generally visit cities that offer similar amenities to what they can experience at home. Visitors desire a mix of entertainment options, such as unique retail, dining and diverse nightlife, available to them in a "packaged deal" where they can experience each entertainment option locally.

Currently, El Paso's downtown entertainment offerings are few. Other cities such as Louisville Oklahoma City and Kansas City share similar characteristics and have taken radical steps to change their downtown entertainment offerings.

Louisville, Kentucky

The state of Kentucky implemented the Kentucky Tourism Development Act (KTDA) sales tax credit program and TIF package to provide incentives for development in the downtown corridor. These incentives programs helped stimulate hotel and entertainment developments in downtown Louisville. The Kentucky Tourism Development Act (KTDA), enacted in 1996, established a state sales tax refund program in order to encourage the growth of tourism-related developments, such as recreational or entertainment facilities, historical sites, and natural attractions within the Commonwealth of Kentucky. Under the KTDA, eligible new or expanded tourist attractions receive a rebate over ten years of up to 25 percent of project capital costs through a refund of sales taxes generated from the attraction. The refund is limited by the incremental amount of increased sales tax receipts generated by the development. The sales tax credit program helped fund the 4th Street Live entertainment district which consists of restaurants, bars and retail offerings. This entertainment district is within walking distance of most of Louisville's downtown businesses, the convention center and major hotels.

Utilizing this tool, the City of Louisville created a TIF financing district and floated a $48 million bond to help fund a downtown Marriott hotel with 616 rooms and 50,000 SF of meeting space.

Oklahoma City, Oklahoma

In 1993, the voters of Oklahoma City passed a temporary sales tax hike of 1 percent known locally as MAPS (Metropolitan Area Projects). In the six and a half years the tax was in place $309 million in taxes were collected along with $54 million in interest on those receipts. Over the course of the next several years, those funds were used to fund such demand generators as AT&T Bricktown Ballpark, a convention center renovation, downtown trolleys, a new library, Bricktown Canal and a rebuilt civic center music hall. In part due to these efforts, the City, particularly downtown, experienced nearly $2 billion in new development, including 4 new downtown hotels and other new retail, entertainment and residential demand generators.

Kansas City, Missouri

The Missouri Downtown Economic Stimulus Act (MODESA), enacted in 2003, provides redirected state revenue (not appropriations) for "major initiative" projects to facilitate the redevelopment of downtown areas and the creation of jobs by providing essential public infrastructure. Under MODESA, a portion of the new state and local taxes created by a project can be redirected to fund eligible public infrastructure and related costs for a period of up to 25 years. Areas that are eligible under MODESA include "Central business districts" that are either "blighted" or a "conservation area." In response to poor retail performance of the downtown area, its prime location, and the lack of retail and entertainment, Kansas City used the MODESA legislation to create a 465,000 square foot entertainment district incorporating restaurant, retail, and entertainment venues. KC Live!, as it will be known upon completion, calls for approximately 115,000 square feet of entertainment space, 126,000 square feet of retail space, 183,000 square feet of restaurants, and 41,000 square feet of services space (health club and spa).

The redevelopment of blighted downtown areas with mixed-use entertainment districts has provided a reason for locals to return to the city and spend money on dining, shopping and entertainment downtown rather than in surrounding areas. These developments have made each city a more attractive meeting destination for the corporate, group and association business as the cities offer entertainment options for guests at the conclusion of the business day. The mixed-use entertainment developments have made the cities an appealing place for individuals to visit and spend their time and money. These developments have aided in the need for downtown hotel supply growth through an increase in demand from the leisure and group markets.

These are examples of projects where cities have taken aggressive and proactive steps to ensure that economic redevelopment occurs in blighted downtown areas. El Paso currently shares similar characteristics to Louisville, Oklahoma City and Kansas City pre-redevelopment.

The City of El Paso has made the first stages of commitment to a downtown restoration with the El Paso Downtown 2015 Plan. The City created plans for a major downtown redevelopment district with an incentive district to help aid private investment in four categories; retail, commercial, mixed use and residential. The intention to change downtown is evident; the City now needs to arm itself with the tools that can make this change occur.

Downtown El Paso's ability to absorb hotel rooms is directly proportional to the level of new development that occurs. New downtown development is likely to be a result of incentives offered from the city to fuel the new development. The City has several options with which to stimulate the economic development downtown and facilitate absorption of the hotel supply growth.

- The city can offer incentives to entice hotel development downtown, which will in turn enable the CVB to generate additional demand from group and association business.

- Development of a downtown mixed-use entertainment district, which offers retail, food and beverage, commercial and residential development.

However, before analyzing the specifics of the City of El Paso's options for stimulating downtown development in part through growth in the diversity and number of rooms in its hotel inventory, a brief description of the overall influences such economic stimulation options can have is in order. The experience of another community provides the best method of describing those influences.

Strengthening Hospitality as Part of an Overall Strategy

The hotel industry requires "seeding" to start development of the destination as a whole. Incentives needed for the first series of hotels far exceed the direct tax generated by the hotels themselves, especially if only a single jurisdiction, such as a city, is considered. It takes investment in an overall strategy to make long term results accrue. In conjunction with our analysis of the hospitality industry in El Paso, we note steps taken to strengthen the hospitality market will influence other development in El Paso and it downtown. While the overall influence of an incentive program for hotel development cannot be specifically quantified, the experience of other cities provides a strong indication of the positive influences such a program can have.

In 2001, Johnson Consulting undertook in Ft. Worth, TX a study similar to that undertaken now in El Paso. Ft. Worth, like El Paso, had recognized a need to improve the performance of their convention center and the overall economic life of their downtown. Also, like El Paso, the City perceived a lack of hotel options, particularly in the downtown area near the convention center, was adversely impacting the center and downtown. Although Ft. Worth had several existing downtown hotels, including those summarized in Table 4-4 below, those hotel offerings were rather "tired" and lacked the full service amenities essential to successful downtown or convention center hotel.

Table 4-4
2001 Downtown Forth Worth Hotels

Brand	Rooms
Clarion	300
Radisson	517
Ramada	430
Total	**1,247**

Source:City of Fort Worth and Johnson Consulting

While these 1,247 rooms represented a decent (albeit still inadequate) quantity of rooms, our Fort Worth report noted they were not of the brand and quality usually sought by convention and meeting planners and we ultimately recommended the City of Fort Worth should consider incentives to attract a downtown convention center headquarters hotel of the size and quality necessary to support further improvement to the convention business and as an impetus to further downtown development.

In 2006, ground was broken in downtown Ft. Worth adjacent to convention center on a 608 room, Omni luxury hotel that includes meeting space, three restaurants, pool and spa as well as a host of other full service amenities. (It is also noteworthy that The Omni, which is slated to open in the fall of 2008, also includes 97 luxury condominiums priced and selling for $500 per square foot with approximately 23 of the units have been pre-sold.) However, it took a package of public incentives to generate the additional private investment needed to improve the quality and quantity of Ft. Worth's hotel inventory. While incentives will vary from city to city and project to project (and we note such incentives range from 10 to 100 percent of the cost of a project), the Fort Worth Omni Hotel will receive the following incentives:

- 18 year rebate on hotel occupancy taxes generated by the hotel itself
- 15 year abatement of the hotel's (excluding the condos) property taxes
- $8.6 million in other hotel tax and car rental tax reserves to defray parking costs
- Abatement of property taxes on the condos until such time as they are sold to a homeowner

The City of Fort Worth estimates the net present value of these incentives (at a 5% discount rate) as $18.2 million for a project with an estimated total final cost of nearly $150 million.

In addition to the obvious direct tax revenue and employment benefits this project is having and will have in Ft. Worth, Johnson Consulting also notes other development activity associated with the Omni project. Table 4-5 shows what has happened to the downtown hotels described in Table 4-4 which have all undergone or are undergoing renovation since our report.

Table 4-5
2007 Downtown Forth Worth Hotels

Formerly	Now	Rooms
Clarion	Embassay Suites	150
Radison	Hilton	298
Ramada	*Sheraton	430
Total		**878**

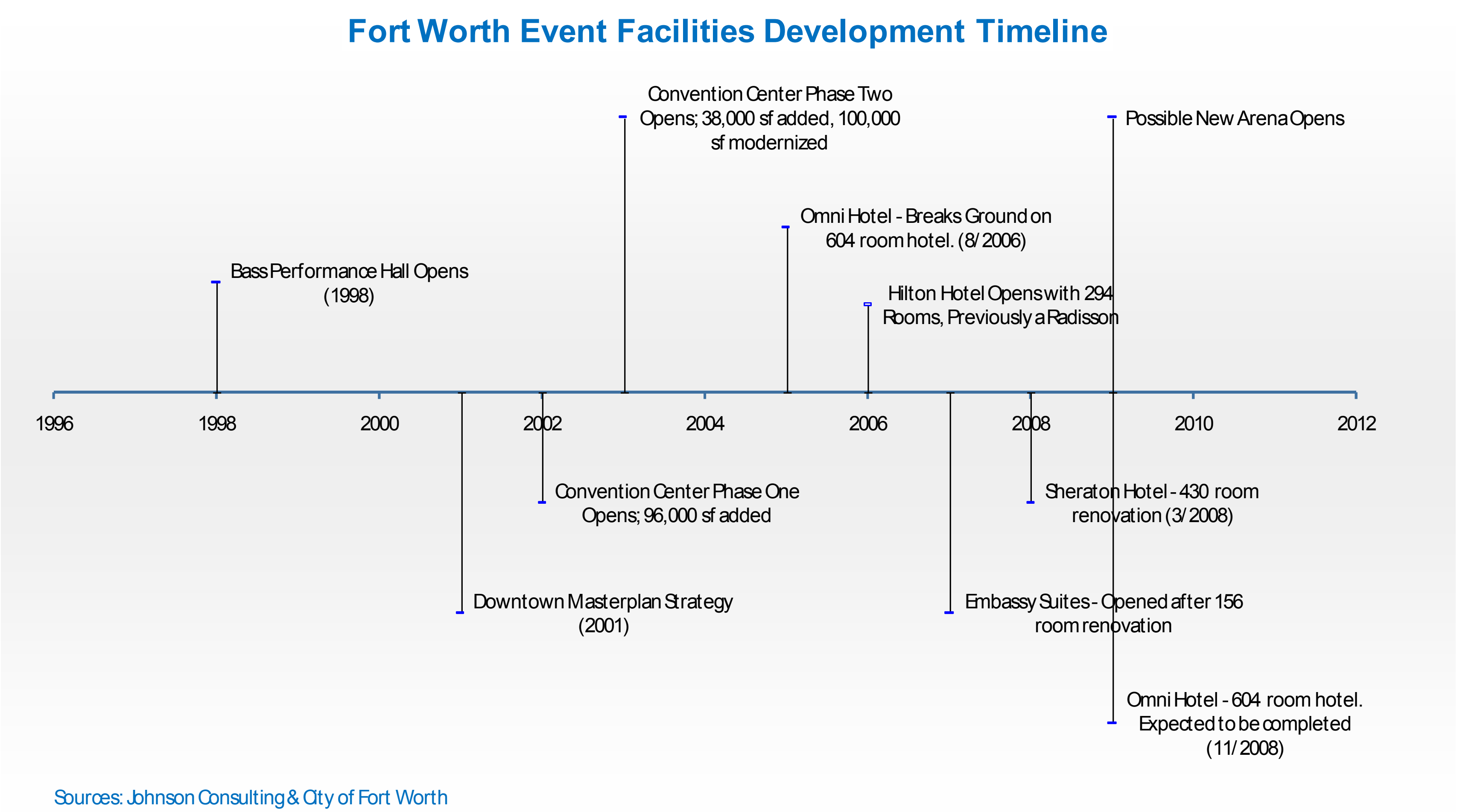
**Reopening March, 2008*
Source: City of Fort Worth and Johnson Consulting

As shown these properties have undergone a transformation to recognized upscale brands in part to compliment the new Omni and in part to better compete with the Omni. And, while the total number of rooms in these three hotels has decreased, the overall quality of downtown hotel rooms has improved and downtown Ft.

Worth will have at least 1,436 high quality full service rooms when the Omni and renovated Sheraton Hotels open next year where it had none a few short years ago.

Figure 4-2 below illustrates just what has taken place in recent years in Ft. Worth.

Figure 4-2


Fort Worth Event Facilities Development Timeline
Convention Center Phase Two Opens; 38,000 sf added, 100,000 sf modernized
Possible New Arena Opens
Omni Hotel - Breaks Ground on 604 room hotel. (8/2006)
Bass Performance Hall Opens (1998)
Hilton Hotel Opens with 294 Rooms, Previously a Radisson
1996
1998
2000
2002
2004
2006
2008
2010
2012
Convention Center Phase One Opens; 96,000 sf added
Sheraton Hotel - 430 room renovation (3/2008)
Downtown Masterplan Strategy (2001)
Embassy Suites - Opened after 156 room renovation
Omni Hotel - 604 room hotel. Expected to be completed (11/2008)
Sources: Johnson Consulting & City of Fort Worth

While Ft. Worth and El Paso are by no means exactly alike in every respect, their needs and goals were and are very similar and the experience of Ft. Worth provides some indication of what El Paso might expect when reviewing and considering the balance of this section and this report.

Analysis of Potential Growth in El Paso

This subsection provides an analysis on potential supply growth, potential demand growth, and daily rate growth in downtown El Paso. It is important to note, from years 2000-2008 the inventory consists of county-wide supply. Beginning in 2009, the analysis focuses specifically on the downtown supply, demand, occupancy and average rate.

To gauge the level of supply growth downtown El Paso can support, Johnson Consulting has derived three separate scenarios. These scenarios represent downtown El Paso's ability to absorb rooms given different levels of public investment in the form of financial incentives.

It appears steps are being made in the right direction. Mike Schoffit, President of the El Paso Hotel and Motel Association reported that in the next 18 months, approximately 1,000 hotel rooms will be added to the county-wide hotel supply. However, of the 1,000 additional rooms, only 320 are planned for downtown El Paso.

Scenario A

The first scenario is Scenario A, or the "As Is" scenario. Scenario A projects El Paso's ability to absorb additional rooms without substantial public incentive projects and economic development occurring. Provided below in Table 4-6 is a summary of the downtown El Paso's supply, demand, occupancy and ADR in an environment where external forces have not worked to create more demand in the group and leisure markets.

Table 4-6

El Paso Scenario A - "As Is"

	Room Supply		Room Night Supply		Room Night Demand		Occupancy Rate		ADR		Gross Room Revenues	
	# of Rooms	# of Rooms Added	In Thousands of Roomnights	Annual % Change	In Thousands of Roomnights	Annual % Change	Average Annual Rate	Annual % Change	$	Annual % Change	In $Millions	Annual % Change
2001	7,447		2,718		1,727		63.52%		$56.64		$97.8	
2002	7,468	21	2,726	*0.3%*	1,761	*2.0%*	64.61%	*1.7%*	$58.22	*2.8%*	$102.5	*4.9%*
2003	7,567	98	2,762	*1.3%*	1,777	*0.9%*	64.34%	*-0.4%*	$58.47	*0.4%*	$103.9	*1.3%*
2004	7,646	80	2,791	*1.1%*	1,977	*11.3%*	70.85%	*10.1%*	$59.65	*2.0%*	$117.9	*13.5%*
2005	7,731	85	2,822	*1.1%*	1,957	*-1.0%*	69.37%	*-2.1%*	$62.59	*4.9%*	$122.5	*3.9%*
2006	7,773	42	2,837	*0.5%*	2,112	*0.4%*	74.44%	*7.3%*	$67.55	*1.2%*	$142.6	*16.4%*
2007	8,443	670	3,082	*8.6%*	2,030	*-3.9%*	65.9%	*-11.5%*	$68.43	*1.3%*	$138.9	*-2.6%*
2008	8,776	333	3,203	*3.9%*	2,059	*1.4%*	64.3%	*-2.4%*	$69.41	*1.4%*	$142.9	*2.9%*
2009	8,826	50	3,221	*0.6%*	2,081	*1.1%*	64.6%	*0.5%*	$70.50	*1.6%*	$146.7	*2.7%*
2010	8,876	50	3,240	*0.6%*	2,124	*2.1%*	65.6%	*1.5%*	$71.72	*1.7%*	$152.4	*3.8%*
2011	8,926	50	3,258	*0.6%*	2,173	*2.3%*	66.7%	*1.7%*	$73.09	*1.9%*	$158.8	*4.3%*
2012	8,976	50	3,276	*0.6%*	2,213	*1.8%*	67.5%	*1.2%*	$74.62	*2.1%*	$165.1	*3.9%*
2013	9,026	50	3,294	*0.6%*	2,236	*1.1%*	67.9%	*0.5%*	$76.34	*2.3%*	$170.7	*3.4%*
2014	9,076	50	3,313	*0.6%*	2,248	*0.6%*	67.9%	*0.0%*	$78.28	*2.5%*	$176.0	*3.1%*
2015	9,126	50	3,331	*0.6%*	2,261	*0.6%*	67.9%	*0.0%*	$80.27	*2.5%*	$181.5	*3.1%*
2016	9,176	50	3,349	*0.5%*	2,273	*0.5%*	67.9%	*0.0%*	$82.30	*2.5%*	$187.1	*3.1%*
2017	9,201	25	3,358	*0.3%*	2,279	*0.3%*	67.9%	*0.0%*	$84.39	*2.5%*	$192.4	*2.8%*
2018	9,226	25	3,367	*0.3%*	2,286	*0.3%*	67.9%	*0.0%*	$86.53	*2.5%*	$197.8	*2.8%*
2019	9,251	25	3,377	*0.3%*	2,292	*0.3%*	67.9%	*0.0%*	$88.73	*2.5%*	$203.3	*2.8%*
2020	9,276	25	3,386	*0.3%*	2,298	*0.3%*	67.9%	*0.0%*	$90.98	*2.5%*	$209.1	*2.8%*
Total		1,829										

Source: Johnson Consulting

The following assumptions were used to develop the projections:

- *Rooms and Room Night Supply –*
  - Historical compounded annual growth rate (CAGR) of room night supply (county-wide) from 2000 through 2006 is 0.5 percent annually or an average of just over 40 additional rooms per year.
  - Hotel inventory in downtown El Paso as of mid 2006 is 469 rooms, which translates to 171,185 annual room nights.
  - In the short run, it is assumed that hotel projects under construction and in planning phases as previously mentioned will enter the market as planned through 2008.
  - In the long run beyond 2009, it is estimated that in Scenario A El Paso can absorb approximately 600 rooms in a twelve year period. Thus, the projections assume that on average; approximately 46.7 rooms are added annually into the inventory.

- *Accommodated Demand –*
  - Historical CAGR of accommodated demand from 2001 through 2006 is 2.6 percent annually.
  - It is assumed that the lack of additions to supply during the evaluation period has positively affected demand results, causing it to increase.
  - In the short run through 2008, demand performance is expected to decrease due 1,000 new rooms entering the market.
  - In the long run, annual room night demand growth is expected to stabilize and correspond to the projected room supply addition.
- *Occupancy Rate –*
  - Average occupancy rate in El Paso (county-wide) from 2001 through 2006 is 67.94 percent. Conservatively, demand (county-wide) is assumed to continue to decline (or at best, to rise slightly to reflect demand generated by the expansion of Fort Bliss over the course of the next several years) as the quantity of hotel properties increases and no additional demand generators are added. If additional supply is added downtown demand is expected to increase as a result of increased meetings and convention business. Additional meetings business will not impact the preponderance of hotels in El Paso as they are not conveniently located downtown.
  - In the short run, increased product offerings in El Paso are expected to hurt demand performance. Occupancy rate is expected to decrease seven to nine occupancy points to 67.2 percent.
  - In the long run, weighted average occupancy is assumed to stabilize at 66.9 percent.
- *Average Daily Rate –*
  - Historical CAGR of effective daily rate from 2001 through 2006 is 2.8 percent annually.
  - In the short term, weaker demand growth will ensure slower ADR growth.
  - In the long run, effective daily rate is expected to stabilize and keep up with the inflationary rate, growing at 2.5 percent annually.

Scenario B – Individual Hotel Incentives

Scenario B involves the use of public incentives to individual hotel developments and restorations. In this model, El Paso will evaluate the property submittal on a project by project basis. This scenario will add supply to downtown El Paso thereby aiding the CVB in its efforts to market the city to larger regional groups and associations but will not have a dramatic impact on increasing leisure demand in the downtown corridor. Provided below in Table 4-7 is downtown El Paso supply, demand, occupancy and average rate projections under scenario B.

Table 4-7

El Paso Scenario B - Hotel Incentives

	Room Supply		Room Night Supply		Room Night Demand		Occupancy Rate		ADR		Gross Room Revenues	
	# of Rooms	# of Rooms Added	In Thousands of Roomnights	Annual % Change	In Thousands of Roomnights	Annual % Change	Average Annual Rate	Annual % Change	$	Annual % Change	In $Millions	Annual % Change
2001	7,447		2,718		1,727		63.52%		$56.64		$97.8	
2002	7,468	21	2,726	*0.3%*	1,761	*2.0%*	64.61%	*1.7%*	$58.22	*2.8%*	$102.5	*4.9%*
2003	7,567	98	2,762	*1.3%*	1,777	*0.9%*	64.34%	*-0.4%*	$58.47	*0.4%*	$103.9	*1.3%*
2004	7,646	80	2,791	*1.1%*	1,977	*11.3%*	70.85%	*10.1%*	$59.65	*2.0%*	$117.9	*13.5%*
2005	7,731	85	2,822	*1.1%*	1,957	*-1.0%*	69.37%	*-2.1%*	$62.59	*4.9%*	$122.5	*3.9%*
2006	7,773	42	2,837	*0.5%*	2,112	*0.4%*	74.44%	*7.3%*	$67.55	*1.2%*	$142.6	*16.4%*
2007	8,443	670	3,082	*8.6%*	2,030	*-3.9%*	65.9%	*-11.5%*	$69.23	*2.5%*	$140.5	*-1.5%*
2008	8,776	333	3,203	*3.9%*	2,059	*1.4%*	64.3%	*-2.4%*	$72.41	*4.6%*	$149.1	*6.1%*
2009	8,876	100	3,240	*1.1%*	2,114	*2.6%*	65.2%	*1.5%*	$76.07	*5.1%*	$160.8	*7.8%*
2010	8,976	100	3,276	*1.1%*	2,180	*3.1%*	66.5%	*2.0%*	$80.30	*5.6%*	$175.0	*8.9%*
2011	9,076	100	3,313	*1.1%*	2,258	*3.6%*	68.2%	*2.5%*	$85.22	*6.1%*	$192.5	*10.0%*
2012	9,176	100	3,349	*1.1%*	2,317	*2.6%*	69.2%	*1.5%*	$90.96	*6.7%*	$210.8	*9.5%*
2013	9,251	75	3,377	*0.8%*	2,336	*0.8%*	69.2%	*0.0%*	$94.02	*3.4%*	$219.6	*4.2%*
2014	9,326	75	3,404	*0.8%*	2,355	*0.8%*	69.2%	*0.0%*	$96.39	*2.5%*	$227.0	*3.4%*
2015	9,376	50	3,422	*0.5%*	2,368	*0.5%*	69.2%	*0.0%*	$98.83	*2.5%*	$234.0	*3.1%*
2016	9,426	50	3,440	*0.5%*	2,380	*0.5%*	69.2%	*0.0%*	$101.32	*2.5%*	$241.2	*3.1%*
2017	9,476	50	3,459	*0.5%*	2,393	*0.5%*	69.2%	*0.0%*	$103.88	*2.5%*	$248.6	*3.1%*
2018	9,526	50	3,477	*0.5%*	2,406	*0.5%*	69.2%	*0.0%*	$106.50	*2.5%*	$256.2	*3.1%*
2019	9,551	25	3,486	*0.3%*	2,412	*0.3%*	69.2%	*0.0%*	$109.19	*2.5%*	$263.4	*2.8%*
2020	9,576	25	3,495	*0.3%*	2,418	*0.3%*	69.2%	*0.0%*	$111.95	*2.5%*	$270.7	*2.8%*
Total		2,129										

Source: Johnson Consulting

The following assumptions were used to develop the projections:

- *Rooms and Room Night Supply –*
  - Historical compounded annual growth (CAGR) of room night supply (county-wide) from 2001 through 2006 is 0.26 percent annually, or an average of 20 additional rooms per year.
  - Hotel inventory in El Paso as of mid 2006 is 469 rooms, which translates to 171,185 annual room nights.

- In the short run, it is assumed that hotel projects under construction and in planning phases as previously mentioned will enter the market as planned through 2008.
- In the long run beyond 2009, it is estimated that in Scenario B El Paso can absorb approximately 800 rooms in a twelve year period. Thus the projections assume that on average; approximately 66 rooms are added annually into the inventory.

▪ *Accommodated Demand –*

- Historical CAGR of accommodated demand from 2001 through 2006 is 2 percent annually.
- It is assumed that the lack of additions to supply during the evaluation period has positively affected demand results, causing it to increase.
- In the short run through 2008, demand performance is expected to decrease due 1,000 new rooms entering the market.
- In the long run, annual room night demand growth is expected to stabilize and correspond to the projected room supply addition.

▪ *Occupancy Rate –*

- Average occupancy rate in El Paso (county-wide) from 2001 through 2006 is 67.9 percent. Demand (county-wide) is expected to continue to decline as the quantity of hotel properties increases and no additional demand generators are added. If additional supply is added downtown demand is expected to increase as a result of increased meetings and convention business. Additional meetings business will not impact the preponderance of hotels in El Paso as they are not conveniently located downtown.
- In the short run, increased product offerings in El Paso are expected to hurt demand performance the. Occupancy rate is expected to decrease seven to nine occupancy points to 66percent.
- In the long run, weighted average occupancy is assumed to stabilize at 69.2 percent.

▪ *Average Daily Rate –*

- Historical CAGR of effective daily rate from 2001 through 2006 is 1.7 percent annually.
- In the short term, weaker demand growth will ensure slower ADR growth.

- In the long run, effective daily rate is expected to stabilize and keep up with the inflationary rate, growing at 2.5 percent annually.

Scenario C- Programmed Mixed-Use Development Incentives

Scenario C will garner downtown El Paso the greatest economic development and ability to absorb hotel rooms. In this scenario, the City provides incentives to a wide range of development and restoration projects. Public incentives are not limited to hotel development, but spread across mixed-use projects which may include residential, retail, commercial, food and beverage, sporting and cultural developments. In scenario C, the mixed-use development and restoration of downtown will generate leisure demand, which currently is lacking, and in turn generate the need for additional hotel supply in the downtown corridor. The mixed-use developments will make the City a more attractive location to hold group and association meetings, aiding the CVB in its efforts to market the City as a meetings destination. This scenario offers all the benefits of scenario B, with the additional benefits of a revived, vibrant downtown. Scenario C is most consistent with the City's "El Paso Downtown 2015 Plan". Provided below in Table 4-8 is downtown El Paso supply, demand, occupancy and average rate projections under scenario C.

Table 4-8

El Paso Scenario C - Downtown Entertainment District

	Room Supply		Room Night Supply		Room Night Demand		Occupancy Rate		ADR		Gross Room Revenues	
	# of Rooms	# of Rooms Added	In Thousands of Roomnights	Annual % Change	In Thousands of Roomnights	Annual % Change	Average Annual Rate	Annual % Change	$	Annual % Change	In $Millions	Annual % Change
2001	7,447		2,718		1,727		63.52%		$56.64		$97.8	
2002	7,468	21	2,726	*0.3%*	1,761	*2.0%*	64.61%	*1.7%*	$58.22	*2.8%*	$102.5	*4.9%*
2003	7,567	98	2,762	*1.3%*	1,777	*0.9%*	64.34%	*-0.4%*	$58.47	*0.4%*	$103.9	*1.3%*
2004	7,646	80	2,791	*1.1%*	1,977	*11.3%*	70.85%	*10.1%*	$59.65	*2.0%*	$117.9	*13.5%*
2005	7,731	85	2,822	*1.1%*	1,957	*-1.0%*	69.37%	*-2.1%*	$62.59	*4.9%*	$122.5	*3.9%*
2006	7,773	42	2,837	*0.5%*	2,112	*0.4%*	74.44%	*7.3%*	$67.55	*1.2%*	$142.6	*16.4%*
2007	8,443	670	3,082	*8.6%*	2,030	*-3.9%*	65.9%	*-11.5%*	$69.23	*2.5%*	$140.5	*-1.5%*
2008	8,776	333	3,203	*3.9%*	2,079	*2.4%*	64.9%	*-1.4%*	$72.24	*4.4%*	$150.2	*6.9%*
2009	8,876	100	3,240	*1.1%*	2,145	*3.1%*	66.2%	*2.0%*	$76.95	*6.5%*	$165.0	*9.9%*
2010	9,001	125	3,285	*1.4%*	2,233	*4.1%*	68.0%	*2.7%*	$82.47	*7.2%*	$184.2	*11.6%*
2011	9,176	175	3,349	*1.9%*	2,321	*3.9%*	69.3%	*2.0%*	$88.99	*7.9%*	$206.5	*12.2%*
2012	9,351	175	3,413	*1.9%*	2,412	*3.9%*	70.7%	*2.0%*	$96.71	*8.7%*	$233.2	*12.9%*
2013	9,526	175	3,477	*1.9%*	2,469	*2.4%*	71.0%	*0.5%*	$105.95	*9.6%*	$261.6	*12.2%*
2014	9,701	175	3,541	*1.8%*	2,514	*1.8%*	71.0%	*0.0%*	$111.01	*4.8%*	$279.1	*6.7%*
2015	9,851	150	3,596	*1.5%*	2,553	*1.5%*	71.0%	*0.0%*	$113.93	*2.6%*	$290.9	*4.2%*
2016	10,001	150	3,650	*1.5%*	2,592	*1.5%*	71.0%	*0.0%*	$116.92	*2.6%*	$303.1	*4.2%*
2017	10,101	100	3,687	*1.0%*	2,618	*1.0%*	71.0%	*0.0%*	$120.00	*2.6%*	$314.1	*3.7%*
2018	10,201	100	3,723	*1.0%*	2,644	*1.0%*	71.0%	*0.0%*	$123.15	*2.6%*	$325.6	*3.6%*
2019	10,251	50	3,742	*0.5%*	2,657	*0.5%*	71.0%	*0.0%*	$126.38	*2.6%*	$335.8	*3.1%*
2020	10,301	50	3,760	*0.5%*	2,670	*0.5%*	71.0%	*0.0%*	$129.71	*2.6%*	$346.3	*3.1%*
Total		2,854										

Source: Johnson Consulting

The following assumptions were used to develop the projection:

- *Rooms and Room Night Supply –*
  - Historical compounded annual growth (CAGR) of room night supply (county-wide) from 2001 through 2006 is 0.3 percent annually, or an average of 20 additional rooms per year.
  - Hotel inventory in El Paso as of mid 2006 is 469 rooms, which translates to 171,185 annual room nights.
  - In the short run, it is assumed that hotel projects under construction and in planning phases as previously mentioned will enter the market as planned through 2008.
  - In the long run beyond 2009, it is estimated that in Scenario A El Paso can absorb approximately 1,525 rooms in a twelve year period. Thus the projections assume that on average; approximately 127 rooms are added annually into the inventory.
- *Accommodated Demand –*
  - Historical CAGR of accommodated demand from 2001 through 2006 is 2.7percent annually.
  - It is assumed that the lack of additions to supply during the evaluation period has positively affected demand results, causing it to increase.
  - In the short run through 2008, demand performance is expected to decrease due 1,000 new rooms entering the market.
  - In the long run, annual room night demand growth is expected to stabilize and correspond to the projected room supply addition.
- *Occupancy Rate –*
  - Average occupancy rate in El Paso (county-wide) from 2001 through 2006 is 67.94 percent. Demand (county-wide) is expected to continue to decline as the quantity of hotel properties increases and no additional demand generators are added. If additional supply is added downtown demand is expected to increase as a result of increased meetings and convention business. Additional meetings business will not impact the preponderance of hotels in El Paso as they are not conveniently located downtown.
  - In the short run, increased product offerings in El Paso are expected to hurt demand performance the. Occupancy rate is expected to decrease seven to nine occupancy points to 66.2 percent.

- In the long run, weighted average occupancy is assumed to stabilize at 71.7 percent.

- *Average Daily Rate* –
  - Historical CAGR of effective daily rate from 2001 through 2005 is 3.22percent annually.
  - In the short term, weaker demand growth will ensure slower ADR growth.
  - In the long run, effective daily rate is expected to stabilize and keep up with the inflationary rate, growing at 2.5 percent annually.

Summary and Recommendations

El Paso currently enjoys a relatively stable hotel market with steady to moderate growth in demand and rates. However, the performance experienced in the market during the course of the past six years was a product of a strong national and local economy. Although El Paso's demand and rate numbers have improved in recent years largely as a result of activities at Fort Bliss, El Paso's performance, in general, roughly paralleled that of the national lodging industry, which suggests that real gains where not experienced to the extent they perhaps could have been. The two biggest problems facing the city is the lack of demand generators offered in the market and the sparse hotel supply downtown.

The CVB is unable to effectively sell the convention center to larger groups and associations due to the inadequate supply of downtown hotel rooms. Downtown lacks leisure demand generators. There is no reason for individuals to remain downtown after working hours due to a lack of entertainment options. In order for the City to stimulate development in the downtown corridor, they will need to offer substantial public incentives to developers as the current market is not strong enough to support adequate returns on equity from large scale mixed-use and hospitality developments.

El Paso needs to establish policy which makes the public incentive approval process efficient and effective. Until this occurs, leisure development will likely transpire at a *slow* pace.

V. REQUIRED ACTION TO STIMULATE HOTEL GROWTH

REQUIRED ACTION TO STIMULATE HOTEL GROWTH

Cities are being faced more and more often with requirements to provide developers with financing subsidies/incentives to encourage development of hospitality projects. Subsidies enable developers to justify hospitality projects that would otherwise not be deemed feasible, primarily due to an insufficient return on equity given the risk associated with such a development project and the market conditions in the area. Johnson Consulting has performed a "gap analysis" by property type to determine the minimum *estimated* subsidy that will satisfy the development community's standard return on equity for a hotel development.

The issue in downtown El Paso has been a lack of leisure demand generators and insufficient supply of hotel rooms close enough to effectively market the convention center. Furthermore, El Paso faces an aging hotel supply and restrictions on a key portion of the hotel market in the form of the daily per diem allotments to which government employees are subject. However, other cities with per diem issues have seen faster and better hotel growth as they have diversified demand and supported hotels financially.

The initial step required to perform a funding gap analysis is completing a valuation of the potential property or properties to determine feasibility. Johnson Consulting used the income method of valuation to determine the net present value of a project's cash flow. The project's feasibility depends on the ability of a project's revenue stream to pay debt service and provide a sufficient return on equity to investors. Johnson Consulting estimated the project's cash flows for a ten-year period. To capture the ongoing value of the asset, a reversionary value (i.e. cash flows from the sale of the property) is calculated in Year 10 based on Year 11's projected cash flows. The valuations were performed under conventional financing assumptions where the private investor assumes the debt load.

Johnson Consulting evaluated five different property types: economy/budget, mid scale without Food and Beverage (F&B), mid scale with F&B, full service and boutique. Provided below in Table 5-1 are the financing assumptions used to complete the hotel valuations. All assumptions used are subject to change to reflect current conditions in the lending markets.

Table 5-1

Assumptions Used for Hotel Valutaions

	Economy	Mid Scale W/O F&B	Mid Scale F&B	Full Service	Boutique	Waterpark
Number of Rooms	80	120	150	300	120	300
Construction Cost per Room	$68,600	$107,900	$124,500	$228,100	$180,000	$220,500
Loan-to-Value Ratio	65%	65%	65%	65%	65%	65%
Inflation Rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Required Return on Equity	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Debt Service Interest Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Amortization Period (years)	30	30	30	30	30	30
Discount Rate	12.5%	11.4%	12.5%	11.4%	10.9%	11.4%
Residual Capitalization Rate	10.2%	11.4%	10.2%	11.4%	8.7%	11.4%

Source: Johnson Consulting, HVS International Development Cost Survey 2006, Integra Realty Resources Viewpoint 2007 Real Estate Value Trends Report

The following assumptions were standard across the property types. The inflation rate is assumed to be 2 percent, the loan to value ratio is 65 percent, required return on investor equity is 18 percent, debt service interest rate is 7.5 percent and the amortization period is thirty years.

The following financing assumptions differ from property type due to the risk involved with each project:

- number of rooms,
- construction cost per room,
- discount rate and,
- residual capitalization rate.

Economy/Budget – Financing assumptions for budget/economy properties assumed 80 rooms at $68,600 per room, with a discount rate of 12.5 percent and a residual capitalization rate of 10.2 percent. Occupancy rates in Year 1 were assumed at 54 percent and stabilized at 56 percent in Year 4. ADR in Year 1 was estimated at $43.90 and increased to $67.35 in Year 10.

Mid Scale w/o F&B – Financing assumptions for mid scale properties without food and beverage assumed 120 rooms at $107,900 per room. The discount and residual capitalization rate are assumed at 11.4 percent. Occupancy rates in Year 1 were assumed at 61 percent and stabilized at 67 percent in Year 7. ADR in Year 1 was estimated at $68.65 and increased to $105.34 in Year 10.

Mid Scale with F&B – Financing assumptions for mid scale with food and beverage properties assumed 150 rooms at $124,500 per room. The discount rate used was 12.5 percent and the residual capitalization rate used 10.2 percent. Occupancy rates in Year 1 were assumed at 59 percent and stabilized at 66 percent in Year 7. ADR in Year 1 was estimated at $69.13 and increased to $114.33 in Year 10.

Full Service – Financing assumptions for full service properties included 300 rooms at a cost of $228,100 per room. The discount and residual capitalization rate used was 11.4 percent. Occupancy rates in Year 1 were assumed at 65 percent and stabilized at 69 percent in Year 5. ADR in Year 1 was estimated at $93.69 and increased to $154.93 in Year 10.

Boutique – Financing assumptions for a boutique property included 120 rooms at a cost of $180,000 per room with a 10.9 percent discount rate and 8.7 percent residual capitalization rate. Occupancy rates in Year 1 were assumed at 65 percent and stabilized at 68 percent in Year 6. ADR in Year 1 was estimated at $130 and increased to $195.66 in Year 10.

A second scenario, which is not analyzed, but should be considered, assumes the issuance of tax-exempt municipal bonds to finance the hotel development under unique and specialized conditions. Similar to industrial revenue bonds, the hotels in theory have adequate cash flow in their own right, but require municipal support for the bond issues. These tactics are often used near airports, hospitals, port authorities, universities and convention centers when an existing tax exempt entity can sponsor the hotel project. Tax-exempt municipal bonds carry lower interest rates due to the reduced amount of risk associated with the bond because of reserves and government sponsorship. The lower interest rate reduces the funding gap or subsidy necessary to achieve the minimum return on equity. This approach has recently been used to successfully finance several convention center hotel properties. Under the tax-exempt scenario, up to 80 percent of the development costs could be debt financed. However, the financial markets are likely to require significant public support from the sponsoring government agency in the form of equity contributions and/or debt service guarantees.

Financial Projections

Johnson Consulting has developed five hypothetical financial proformas for each property type to serve as the basis for the property valuations. The assumptions used to derive occupancy and average daily rate in the proformas were extrapolated from the national averages of each product type and then indexed to El Paso's performance relative to the national average.

Economy Budget

Provided below in Table 5-2 is the 10 year operating proforma for an economy/budget property.

Table 5-2

Statement of Operating Proforma - Economy/Budget Property

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Room Count	80	80	80	80	80	80	80	80	80	80
Available Room Nights	29,200	29,200	29,200	29,200	29,200	29,200	29,200	29,200	29,200	29,200
Occupancy Rates	54.0%	55.0%	55.5%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%
Occupied Room Nights	15,768	16,060	16,206	16,352	16,352	16,352	16,352	16,352	16,352	16,352
Overall ADR	$43.90	$46.09	$49.32	$53.27	$56.99	$59.84	$61.64	$63.49	$65.39	$67.35
RevPAR	$23.71	$25.35	$27.37	$29.83	$31.92	$33.51	$34.52	$35.55	$36.62	$37.72
Percent of Change from Prior Year		6.9%	8.0%	9.0%	7.0%	5.0%	3.0%	3.0%	3.0%	3.0%
Revenue										
Rooms	$692,190	$740,259	$799,278	$870,996	$931,966	$978,565	$1,007,921	$1,038,159	$1,069,304	$1,101,383
Telephone	16,200	17,325	18,706	20,385	21,812	22,903	23,590	24,297	25,026	25,777
Other Operated Departments	18,409	19,688	21,257	23,165	24,786	26,026	26,806	27,611	28,439	29,292
Rentals and Other Income	9,573	10,238	11,054	12,046	12,889	13,533	13,939	14,358	14,788	15,232
Total	$736,372	$787,509	$850,295	$926,592	$991,453	$1,041,026	$1,072,257	$1,104,425	$1,137,557	$1,171,684
Departmental Expenses										
Rooms	$179,969	$192,467	$207,812	$226,459	$242,311	$254,427	$262,060	$269,921	$278,019	$286,360
Telephone	8,521	9,113	9,840	10,723	11,473	12,047	12,408	12,780	13,164	13,559
Other Operated Departments	4,197	4,489	4,847	5,282	5,651	5,934	6,112	6,295	6,484	6,679
Total	$192,688	$206,069	$222,498	$242,463	$259,436	$272,407	$280,580	$288,997	$297,667	$306,597
Total Operated Departments Income	$543,684	$581,440	$627,797	$684,129	$732,018	$768,619	$791,677	$815,428	$839,890	$865,087
Undistributed Operating Expenses										
Administrative and General	$67,010	$71,663	$77,377	$84,320	$90,222	$94,733	$97,575	$100,503	$103,518	$106,623
Marketing	29,455	31,500	34,012	37,064	39,658	41,641	42,890	44,177	45,502	46,867
Utility Costs	32,400	34,650	37,413	40,770	43,624	45,805	47,179	48,595	50,053	51,554
Property Operations and Maintenance	25,773	27,563	29,760	32,431	34,701	36,436	37,529	38,655	39,815	41,009
Total	$154,638	$165,377	$178,562	$194,584	$208,205	$218,615	$225,174	$231,929	$238,887	$246,054
Gross Operating Profit	$389,046	$416,063	$449,235	$489,545	$523,813	$550,003	$566,503	$583,498	$601,003	$619,033
Franchise Fees	$14,727	$15,750	$17,006	$18,532	$19,829	$20,821	$21,445	$22,088	$22,751	$23,434
Management Fees	18,409	19,688	21,257	23,165	24,786	26,026	26,806	27,611	28,439	29,292
Total	$33,137	$35,438	$38,263	$41,697	$44,615	$46,846	$48,252	$49,699	$51,190	$52,726
Income Before Fixed Charges	$355,909	$380,625	$410,971	$447,848	$479,197	$503,157	$518,252	$533,799	$549,813	$566,308
Selected Fixed Charges										
Property Taxes	$29,455	$31,500	$34,012	$37,064	$39,658	$41,641	$42,890	$44,177	$45,502	$46,867
Insurance	8,836	9,450	11,904	12,972	13,880	14,574	15,012	15,462	15,926	16,404
Reserve for Capital Replacement	36,819	39,375	25,509	27,798	29,744	31,231	32,168	33,133	34,127	35,151
Total	$75,110	$80,326	$71,425	$77,834	$83,282	$87,446	$90,070	$92,772	$95,555	$98,421
Income After Other Fixed Charges	$280,799	$300,299	$339,547	$370,014	$395,915	$415,711	$428,182	$441,028	$454,258	$467,886

Source: Johnson Consulting

Economy/budget properties generate a modest income of $280,000 in Year 1 increasing to $468,000 in year 10. These properties are designed and marketed for the low-budget leisure traveler and will not fundamentally change the lodging market in El Paso.

Mid Scale without Food and Beverage

Table 5-3 provides the ten year operating proforma for a mid scale property without food and beverage property.

Table 5-3

Statement of Operating Proforma - Mid Scale w/o Food and Beverage Property

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Room Count	120	120	120	120	120	120	120	120	120	120
Available Room Nights	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800
Occupancy Rates	61.0%	62.0%	63.0%	64.0%	65.0%	66.0%	67.0%	67.0%	67.0%	67.0%
Occupied Room Nights	26,718	27,156	27,594	28,032	28,470	28,908	29,346	29,346	29,346	29,346
Overall ADR	$68.65	$72.09	$77.13	$83.30	$89.13	$93.59	$96.40	$99.29	$102.27	$105.34
RevPAR	$41.88	$44.69	$48.59	$53.31	$57.94	$61.77	$64.59	$66.52	$68.52	$70.58
Percent of Change from Prior Year		6.7%	8.7%	9.7%	8.7%	6.6%	4.6%	3.0%	3.0%	3.0%
Revenue										
Rooms	$1,834,276	$1,957,564	$2,128,377	$2,335,133	$2,537,633	$2,705,507	$2,828,895	$2,913,762	$3,001,175	$3,091,210
Telephone	45,863	49,040	31,905	23,247	25,263	26,934	28,163	29,007	29,878	30,774
Other Operated Departments	0	0	0	0	0	0	0	0	0	0
Rentals and Other Income	15,288	16,178	17,725	19,373	21,052	22,445	23,469	24,173	24,898	25,645
Total	$1,895,427	$2,022,782	$2,178,007	$2,377,753	$2,583,949	$2,754,887	$2,880,526	$2,966,942	$3,055,950	$3,147,629
Departmental Expenses										
Rooms	$476,912	$452,197	$483,142	$518,400	$553,204	$589,801	$616,699	$635,200	$654,256	$673,884
Telephone	24,124	25,795	16,782	12,228	13,288	14,167	14,814	15,258	15,716	16,187
Other Operated Departments	2,293	2,427	2,659	2,906	3,158	3,367	3,520	3,626	3,735	3,847
Total	$503,329	$480,419	$502,582	$533,533	$569,650	$607,335	$635,033	$654,084	$673,706	$693,918
Total Operated Departments Income	$1,392,098	$1,542,363	$1,675,425	$1,844,220	$2,014,298	$2,147,552	$2,245,493	$2,312,858	$2,382,244	$2,453,711
Undistributed Operating Expenses										
Administrative and General	$172,484	$145,640	$154,639	$168,820	$183,460	$195,597	$204,517	$210,653	$216,972	$223,482
Marketing	75,817	80,911	87,120	95,110	103,358	110,195	115,221	118,678	122,238	125,905
Utility Costs	83,399	89,002	95,832	104,621	113,694	121,215	126,743	130,545	134,462	138,496
Property Operations and Maintenance	66,340	70,797	76,230	83,221	90,438	96,421	100,818	103,843	106,958	110,167
Total	$398,040	$386,351	$413,821	$451,773	$490,950	$523,429	$547,300	$563,719	$580,631	$598,050
Gross Operating Profit	$994,058	$1,156,012	$1,261,603	$1,392,446	$1,523,348	$1,624,124	$1,698,193	$1,749,139	$1,801,613	$1,855,662
Franchise Fees	$94,771	$101,139	$108,900	$118,888	$129,197	$137,744	$144,026	$148,347	$152,798	$157,381
Management Fees	47,386	80,911	87,120	95,110	103,358	110,195	115,221	118,678	122,238	125,905
Total	$142,157	$182,050	$196,021	$213,998	$232,555	$247,940	$259,247	$267,025	$275,036	$283,287
Income Before Fixed Charges	$851,901	$973,961	$1,065,583	$1,178,449	$1,290,793	$1,376,184	$1,438,946	$1,482,114	$1,526,578	$1,572,375
Selected Fixed Charges										
Property Taxes	$75,817	$80,911	$87,120	$95,110	$103,358	$110,195	$115,221	$118,678	$122,238	$125,905
Insurance	26,536	28,319	30,492	33,289	36,175	38,568	40,327	41,537	42,783	44,067
Reserve for Capital Replacement	94,771	101,139	108,900	118,888	129,197	137,744	144,026	148,347	152,798	157,381
Total	$197,124	$210,369	$226,513	$247,286	$268,731	$286,508	$299,575	$308,562	$317,819	$327,353
Income After Other Fixed Charges	$654,777	$763,592	$839,070	$931,162	$1,022,062	$1,089,676	$1,139,371	$1,173,552	$1,208,759	$1,245,022

Source: Johnson Consulting

This property experiences better occupancy and ADR results (versus the economy/budget) with the same amenity offerings due to its higher quality. The property generates approximately $654,000 in Year 1 and increases to $1.24 million in year 10. Mid scale properties without food and beverage offerings target leisure visitors and business travelers. While El Paso could benefit from adding to its existing supply in this product type, it is not where the area's greatest needs lie.

Mid Scale with Food and Beverage

Table 5-4 displays the estimated ten year operating proforma for a mid scale property with food and beverage.

Table 5-4

Statement of Operating Proforma - Mid Scale with Food and Beverage Property

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Room Count	150	150	150	150	150	150	150	150	150	150
Available Room Nights	54,750	54,750	54,750	54,750	54,750	54,750	54,750	54,750	54,750	54,750
Occupancy Rates	59.0%	60.0%	61.0%	62.0%	64.0%	65.0%	66.0%	66.0%	66.0%	66.0%
Occupied Room Nights	32,303	32,850	33,398	33,945	35,040	35,588	36,135	36,135	36,135	36,135
Overall ADR	$69.13	$72.59	$77.67	$84.66	$93.13	$99.64	$104.63	$107.77	$111.00	$114.33
RevPAR	$40.79	$43.55	$47.38	$52.49	$59.60	$64.77	$69.05	$71.13	$73.26	$75.46
Percent of Change from Prior Year		6.8%	8.8%	10.8%	13.5%	8.7%	6.6%	3.0%	3.0%	3.0%
Revenue										
Rooms	$2,233,136	$2,384,536	$2,593,977	$2,873,787	$3,263,138	$3,546,114	$3,780,703	$3,894,124	$4,010,947	$4,131,276
Food and Beverage	600,815	615,225	669,349	741,279	841,711	914,703	975,214	1,004,470	1,034,604	1,065,642
Telephone	55,836	59,737	38,885	28,609	32,486	35,303	37,638	38,767	39,930	41,128
Other Operated Departments	95,968	0	0	0	0	0	0	0	0	0
Rentals and Other Income	18,612	19,707	21,603	23,841	27,071	29,419	31,365	32,306	33,275	34,274
Total	$3,004,367	$3,079,204	$3,323,814	$3,667,517	$4,164,406	$4,525,538	$4,824,920	$4,969,667	$5,118,757	$5,272,320
Departmental Expenses										
Rooms	$524,787	$550,828	$588,833	$637,981	$711,364	$773,053	$824,193	$848,919	$874,387	$900,618
Food and Beverage	501,080	522,941	568,947	630,087	715,454	777,497	828,932	853,800	879,414	905,796
Telephone	54,719	31,421	20,453	15,049	17,087	18,569	19,798	20,392	21,003	21,633
Other Operated Departments	91,664	2,956	3,240	3,576	4,061	4,413	4,705	4,846	4,991	5,141
Total	$1,172,249	$1,108,146	$1,181,473	$1,286,693	$1,447,966	$1,573,532	$1,677,627	$1,727,956	$1,779,795	$1,833,189
Total Operated Departments Income	$1,832,117	$1,971,058	$2,142,340	$2,380,824	$2,716,440	$2,952,006	$3,147,292	$3,241,711	$3,338,962	$3,439,131
Undistributed Operating Expenses										
Administrative and General	$219,319	$221,703	$235,991	$260,394	$295,673	$321,313	$342,569	$352,846	$363,432	$374,335
Marketing	120,175	123,168	132,953	146,701	166,576	181,022	192,997	198,787	204,750	210,893
Utility Costs	132,192	135,485	146,248	161,371	183,234	199,124	212,296	218,665	225,225	231,982
Property Operations and Maintenance	105,153	107,772	116,333	128,363	145,754	158,394	168,872	173,938	179,157	184,531
Total	$576,838	$588,128	$631,525	$696,828	$791,237	$859,852	$916,735	$944,237	$972,564	$1,001,741
Gross Operating Profit	$1,255,279	$1,382,930	$1,510,816	$1,683,996	$1,925,202	$2,092,154	$2,230,558	$2,297,474	$2,366,399	$2,437,391
Franchise Fees	$150,218	$153,960	$166,191	$183,376	$208,220	$226,277	$241,246	$248,483	$255,938	$263,616
Management Fees	75,109	76,980	83,095	91,688	104,110	113,138	120,623	124,242	127,969	131,808
Total	$225,328	$230,940	$249,286	$275,064	$312,330	$339,415	$361,869	$372,725	$383,907	$395,424
Income Before Fixed Charges	$1,029,951	$1,151,989	$1,261,530	$1,408,932	$1,612,872	$1,752,738	$1,868,689	$1,924,749	$1,982,492	$2,041,967
Selected Fixed Charges										
Property Taxes	$120,175	$123,168	$132,953	$146,701	$166,576	$181,022	$192,997	$198,787	$204,750	$210,893
Insurance	36,052	36,950	39,886	44,010	49,973	54,306	57,899	59,636	61,425	63,268
Reserve for Capital Replacement	150,218	153,960	166,191	183,376	208,220	226,277	241,246	248,483	255,938	263,616
Total	$306,445	$314,079	$339,029	$374,087	$424,769	$461,605	$492,142	$506,906	$522,113	$537,777
Income After Other Fixed Charges	$723,506	$837,911	$922,501	$1,034,845	$1,188,103	$1,291,133	$1,376,547	$1,417,843	$1,460,379	$1,504,190

Source: Johnson Consulting

Mid scale properties with food and beverage experience slightly greater profitability than properties without food and beverage due to increased ADRs but generally do not achieve the occupancy levels of similar properties without food and beverage services. This property is expected to earn $723,000 in Year 1 and $1.5 million in Year 10. El Paso would derive more benefit from this type of offering, particularly if located in close proximity the convention center as this type of product serves convention attendees and other business travelers' best.

Full Service

Table 5-5 provides the ten year operating proforma for a full service property.

Table 5-5

Statement of Operating Proforma - Full Service Property

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Room Count	300	300	300	300	300	300	300	300	300	300
Available Room Nights	109,500	109,500	109,500	109,500	109,500	109,500	109,500	109,500	109,500	109,500
Occupancy Rates	65.0%	66.0%	67.0%	68.0%	69.0%	69.0%	69.0%	69.0%	69.0%	69.0%
Occupied Room Nights	71,175	72,270	73,365	74,460	75,555	75,555	75,555	75,555	75,555	75,555
Overall ADR	$93.69	$98.37	$105.26	$114.73	$126.20	$135.04	$141.79	$146.04	$150.42	$154.93
RevPAR	$60.90	$64.92	$70.52	$78.02	$87.08	$93.17	$97.83	$100.77	$103.79	$106.90
Percent of Change from Prior Year		6.6%	8.6%	10.6%	11.6%	7.0%	5.0%	3.0%	3.0%	3.0%
Revenue										
Rooms	$6,668,044	$7,109,161	$7,722,057	$8,542,669	$9,535,126	$10,202,585	$10,712,715	$11,034,096	$11,365,119	$11,706,072
Food and Beverage	1,794,007	1,834,208	1,992,597	2,203,540	2,459,539	2,631,707	2,763,292	2,846,191	2,931,577	3,019,524
Telephone	166,723	178,096	115,757	85,045	94,925	101,570	106,649	109,848	113,143	116,538
Other Operated Departments	286,555	302,947	326,493	359,806	401,607	429,720	451,206	464,742	478,684	493,045
Rentals and Other Income	55,574	58,753	64,309	70,871	79,104	84,642	88,874	91,540	94,286	97,115
Total	$8,970,903	$9,483,165	$10,221,213	$11,261,931	$12,570,303	$13,450,224	$14,122,735	$14,546,417	$14,982,810	$15,432,294
Departmental Expenses										
Rooms	$1,566,990	$1,642,216	$1,752,907	$1,896,473	$2,078,658	$2,224,164	$2,335,372	$2,405,433	$2,477,596	$2,551,924
Food and Beverage	1,496,202	1,529,729	1,661,826	1,837,752	2,051,256	2,194,844	2,304,586	2,373,723	2,444,935	2,518,283
Telephone	163,388	174,534	113,442	83,344	93,027	99,539	104,516	107,651	110,881	114,207
Other Operated Departments	273,703	289,360	312,642	344,542	384,569	411,489	432,064	445,025	458,376	472,127
Total	$3,500,284	$3,635,840	$3,840,816	$4,162,111	$4,607,509	$4,930,035	$5,176,537	$5,331,833	$5,491,788	$5,656,542
Total Operated Departments Income	$5,470,619	$5,847,325	$6,380,397	$7,099,821	$7,962,793	$8,520,189	$8,946,198	$9,214,584	$9,491,022	$9,775,752
Undistributed Operating Expenses										
Administrative and General	$654,876	$682,788	$725,706	$799,597	$892,491	$954,966	$1,002,714	$1,032,796	$1,063,779	$1,095,693
Marketing	358,836	379,327	408,849	450,477	502,812	538,009	564,909	581,857	599,312	617,292
Utility Costs	394,720	417,259	449,733	495,525	553,093	591,810	621,400	640,042	659,244	679,021
Property Operations and Maintenance	313,982	331,911	357,742	394,168	439,961	470,758	494,296	509,125	524,398	540,130
Total	$1,722,413	$1,811,285	$1,942,030	$2,139,767	$2,388,358	$2,555,543	$2,683,320	$2,763,819	$2,846,734	$2,932,136
Gross Operating Profit	$3,748,206	$4,036,041	$4,438,366	$4,960,054	$5,574,436	$5,964,646	$6,262,879	$6,450,765	$6,644,288	$6,843,616
Franchise Fees	$448,545	$474,158	$511,061	$563,097	$628,515	$672,511	$706,137	$727,321	$749,140	$771,615
Management Fees	224,273	237,079	255,530	281,548	314,258	336,256	353,068	363,660	374,570	385,807
Total	$672,818	$711,237	$766,591	$844,645	$942,773	$1,008,767	$1,059,205	$1,090,981	$1,123,711	$1,157,422
Income Before Fixed Charges	$3,075,388	$3,324,803	$3,671,775	$4,115,409	$4,631,663	$4,955,879	$5,203,673	$5,359,784	$5,520,577	$5,686,194
Selected Fixed Charges										
Property Taxes	$358,836	$379,327	$408,849	$450,477	$502,812	$538,009	$564,909	$581,857	$599,312	$617,292
Insurance	107,651	113,798	122,655	135,143	150,844	161,403	169,473	174,557	179,794	185,188
Reserve for Capital Replacement	448,545	474,158	511,061	563,097	628,515	672,511	706,137	727,321	749,140	771,615
Total	$915,032	$967,283	$1,042,564	$1,148,717	$1,282,171	$1,371,923	$1,440,519	$1,483,735	$1,528,247	$1,574,094
Income After Other Fixed Charges	$2,160,356	$2,357,520	$2,629,211	$2,966,692	$3,349,492	$3,583,957	$3,763,154	$3,876,049	$3,992,331	$4,112,100

Source: Johnson Consulting

Full service properties generate substantially higher returns than the mid scale properties due to significantly higher occupancy rates and ADRs. These performance levels do come at a price. The development cost for full service properties is much greater and will require substantial public financing support as will be discussed later in this section. The full service property generates $2.9 million in Year 1 and increases to $5.5 million in Year 10. This property will target corporate and group business along with higher-end business and leisure travelers; and, if properly located near the convention center, could greatly enhance the center's marketability.

Boutique

Table 5-6 provides the ten year operating proforma for a boutique property.

Table 5-6

Statement of Operating Proforma - Boutique Property

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Room Count	120	120	120	120	120	120	120	120	120	120
Available Room Nights	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800	43,800
Occupancy Rates	65.0%	65.5%	66.0%	67.0%	67.5%	68.0%	68.0%	68.0%	68.0%	68.0%
Occupied Room Nights	28,470	28,689	28,908	29,346	29,565	29,784	29,784	29,784	29,784	29,784
Overall ADR	$130.00	$136.50	$146.06	$157.74	$168.78	$173.84	$179.06	$184.43	$189.96	$195.66
RevPAR	$84.50	$89.41	$96.40	$105.69	$113.93	$118.21	$121.76	$125.41	$129.18	$133.05
Percent of Change from Prior Year		5.8%	7.8%	9.6%	7.8%	3.8%	3.0%	3.0%	3.0%	3.0%
Revenue										
Rooms	$3,701,100	$3,916,049	$4,222,158	$4,629,020	$4,990,015	$5,177,787	$5,333,121	$5,493,115	$5,657,908	$5,827,645
Food and Beverage	995,764	1,010,365	1,089,484	1,194,033	1,287,150	1,335,585	1,375,653	1,416,922	1,459,430	1,503,213
Telephone	92,540	98,103	63,292	46,083	49,677	51,547	53,093	54,686	56,326	58,016
Other Operated Departments	0	0	0	0	0	0	0	0	0	0
Rentals and Other Income	30,847	32,364	35,162	38,403	41,398	42,955	44,244	45,571	46,939	48,347
Total	$4,820,250	$5,056,881	$5,410,096	$5,907,540	$6,368,240	$6,607,874	$6,806,111	$7,010,294	$7,220,603	$7,437,221
Departmental Expenses										
Rooms	$869,759	$904,607	$958,430	$1,027,643	$1,087,823	$1,128,758	$1,162,620	$1,197,499	$1,233,424	$1,270,427
Food and Beverage	846,399	858,810	926,062	1,014,928	1,094,077	1,135,247	1,169,305	1,204,384	1,240,515	1,277,731
Telephone	41,643	51,602	33,291	24,240	26,130	27,113	27,927	28,765	29,628	30,516
Other Operated Departments	4,627	4,855	5,274	5,760	6,210	6,443	6,637	6,836	7,041	7,252
Total	$1,762,428	$1,819,874	$1,923,057	$2,072,571	$2,214,241	$2,297,562	$2,366,489	$2,437,483	$2,510,608	$2,585,926
Total Operated Departments Income	$3,057,822	$3,237,006	$3,487,039	$3,834,969	$4,153,999	$4,310,313	$4,439,622	$4,572,811	$4,709,995	$4,851,295
Undistributed Operating Expenses										
Administrative and General	$351,878	$364,095	$384,117	$419,435	$452,145	$469,159	$483,234	$497,731	$512,663	$528,043
Marketing	192,810	202,275	216,404	236,302	254,730	264,315	272,244	280,412	288,824	297,489
Utility Costs	212,091	222,503	238,044	259,932	280,203	290,746	299,469	308,453	317,707	327,238
Property Operations and Maintenance	168,709	176,991	189,353	206,764	222,888	231,276	238,214	245,360	252,721	260,303
Total	$925,488	$965,864	$1,027,918	$1,122,433	$1,209,966	$1,255,496	$1,293,161	$1,331,956	$1,371,915	$1,413,072
Gross Operating Profit	$2,132,334	$2,271,142	$2,459,121	$2,712,536	$2,944,034	$3,054,817	$3,146,461	$3,240,855	$3,338,081	$3,438,223
Franchise Fees	$241,013	$252,844	$270,505	$295,377	$318,412	$330,394	$340,306	$350,515	$361,030	$371,861
Management Fees	192,810	202,275	216,404	236,302	254,730	264,315	272,244	280,412	288,824	297,489
Total	$433,823	$455,119	$486,909	$531,679	$573,142	$594,709	$612,550	$630,926	$649,854	$669,350
Income Before Fixed Charges	$1,698,512	$1,816,023	$1,972,212	$2,180,858	$2,370,892	$2,460,108	$2,533,911	$2,609,928	$2,688,226	$2,768,873
Selected Fixed Charges										
Property Taxes	$192,810	$202,275	$216,404	$236,302	$254,730	$264,315	$272,244	$280,412	$288,824	$297,489
Insurance	57,843	60,683	59,511	64,983	70,051	72,687	74,867	77,113	79,427	81,809
Reserve for Capital Replacement	241,013	252,844	270,505	295,377	318,412	330,394	340,306	350,515	361,030	371,861
Total	$491,666	$515,802	$546,420	$596,662	$643,192	$667,395	$687,417	$708,040	$729,281	$751,159
Income After Other Fixed Charges	$1,206,846	$1,300,221	$1,425,792	$1,584,196	$1,727,700	$1,792,713	$1,846,494	$1,901,889	$1,958,945	$2,017,714

Source: Johnson Consulting

Boutique properties typically experience ADRs and occupancy similar to luxury properties, but with fewer rooms, due to the quality of the amenities and the personal touch of staff. A boutique property is expected to generate approximately $1.2 million in Year 1 increasing to $2 million in Year 10. This property type will service high-end leisure and business travel; and, again, could provide a needed boost for convention business.

These hypothetical proformas served as the backbone to perform the hotel valuations, which will provide the City of El Paso an idea of the estimated subsidies required to fuel room supply growth.

Estimated Subsidies/ Incentives

The financing assumptions stated in Table 5-1 are used in conjunction with the hypothetical proformas developed for each property type in order to determine the estimated "funding gap" or required incentive the city will need to offer a developer to satisfy an 18 percent return on equity. In addition to the financing assumptions, important variables used to determine the level of subsidization are:

- Number of rooms,
- Cost per room,
- Expected occupancy at each property type and,
- Expected average daily rate at each property type.

Provided below in Table 5-7 are the estimated capital budgets for each product type and the potential subsidy required to achieve an 18 percent return on equity. This hurdle rate is assumed. If the developer cannot get an 18 percent return, he will seek investments elsewhere or in other product types which provide this level of return.

Table 5-7

Estimated Subsidy
Needed to Achieve 18% Return on Equity

	# of Rooms	Cost Per Key	Capital Budget	Estimated Subsidy	Subsidy as % of Capital Budget
Budget/Economy	80	$68,600	$5,488,000	$1,367,875	25%
Mid-Scale (W/O F&B)	120	$107,900	$12,948,000	$2,952,748	23%
Mid-Scale w/F&B	150	$124,500	$18,675,000	$5,465,864	29%
Full Service	300	$228,100	$68,430,000	$26,305,270	38%
Boutique	120	$180,000	$21,600,000	$4,031,269	19%

Source: Johnson Consulting

Capital budgets range in size from approximately $5.5 million to construct a budget/economy property to $68.4 million for a full service hotel. Estimated subsidies range in size from $1.3 million at a budget/economy property to $26.3 million at a full service property.

Subsidies as a percentage of capital budget range from 23 percent at a mid-scale without F&B property to 38 percent at full service property. These incentive levels (as a percent of capital budget) are slightly greater with those experienced in other cities.

It is important to note these subsidies are based on a hurdle rate of 18 percent, which is considered the industry standard. The estimated subsidy can be reduced if developers' are willing to accept projects with lower returns on equity. Negotiations between the City and developer will need to take place on a project by project basis as each developer will have different risk tolerances.

The range in estimated subsidies is a product of the capital budget a project requires, expected occupancy, and the average daily rate a property will likely achieve. The full service property requires an expensive per room cost relative to other properties at $224,500 due to food and beverage facilities and meeting space blocks, but doesn't experience a significantly higher ADR. These two variables require a large subsidy to make a full service project feasible. Johnson Consulting has summarized the hotel property types and their attributes and made recommendations as to where they should be pursued in El Paso. Table 5-8 summarizes these attributes.

Table 5-8

Summary of Property Attributes and Funding Gap Parameters

Product Category	Average Capital Budget per Key	Attributes	Appropriate Settings	Estimated Subsidy
Budget/Economy	$68,600	Low rise, wood framed construction, soft costs are increasing as travelers demand more for price point. Development requires less time and money than other projects,	less valuable land in secondary or tertiary locations	$1,367,875
Mid-Scale (W/O F&B)	$107,900	no F&B operation, wood frame construction. Simple design keeps construction costs down.	starting to see in secondary locations and high-density urban and suburban areas, seeing strong growth	$2,952,748
Mid-Scale w/F&B	$124,500	lower construction costs and higher operating leverage, lower per room development costs than full-service. Desirable for developers, competitive room rates,	traditionally for suburban sites but increasingly being built in urban and low-density areas as alternative to aging full service properties, some properties will take place of aging motel inventory in second tier locations	$5,465,864
Full Service	$228,100	High barriers to entry due to large construction costs in urban markets make available but with an appropriate amount of risk, full-service F&B and blocks of meeting space, currently being built with mixed use and ownership components to off set large capital budgets	Urban and resort settings	$26,305,270
Boutique	$180,000	cheaper per room construction costs than luxury properties but still command strong rates and occupancy, difficult to find niche and create "charm" that is associated with boutique properties	Urban and resort settings	$4,031,269

Note: Assumes Loan to Value Ratio of 65%; NOI based on 5% occ and ADR premium over downtown submarket
Note: Capital Budget Per Key was obtained from HVS International Development Cost Survey 2006
Source: Johnson Consulting

Conclusion

Johnson Consulting does not believe an incentive program or financial support should be considered for hotels attempting to locate outside of the downtown corridor. Additionally, incentives and financial support should not be extended to properties that do not help improve the overall quality of the hotel market offerings. Offering public incentives to developers building properties downtown will stimulate economic development and aid the city in achieving the El Paso 2015 Downtown Plan.

The El Paso market is saturated with economy/budget properties. Adding additional inventory in this property type will not substantially change the face of the lodging market, although the economics indicate that subsidies are necessary to stimulate development of this property type, Johnson Consulting does not believe the City should offer incentives for economy properties. Accordingly, Johnson Consulting recommends that efforts to bring new hotels to downtown El Paso focus on mid scale with F&B, full service and/or boutique type hotels.

VI. ECONOMIC AND FISCAL IMPACT ANALYSIS

ECONOMIC AND FISCAL IMPACT ANALYSIS

The primary objective of this section is to quantify the economic and fiscal benefits of the potential hotel supply to the City of El Paso. The economic benefits the City will receive provide evidence to justify incentive offerings to hotel and mixed use venue developers.

In order to complete its assessment, Johnson Consulting performed the following tasks:

- Economic Impact Analysis
  - Estimate new room night demand (of leisure, meeting/group, and business segments) from the potential hotel supply,
  - Estimate new spending that would occur in downtown El Paso from the additional hotel supply
- Fiscal Impact Analysis
  - Estimate the fiscal benefits (from general sales tax, hotel/motel tax,) to the State, County, and City of El Paso attributable to increased spending projection.

Based on the assumptions from Section 4 Scenario C, El Paso can support an additional 1,525 rooms within the next 12 years if the incentives are used properly. Johnson Consulting has used Scenario C as the driver for the economic impact analysis as this is the most desirable outcome for the City and should be aggressively pursued.

Economic Impact Analysis

For the economic impact analysis, Johnson Consulting reviewed the projected demand for hotel properties residing in downtown El Paso. Based on this demand, Johnson Consulting estimated the economic impact, including direct spending from these properties to the City of El Paso.

Total New Room Nights to El Paso

Considering all segments (leisure, meeting/group, and business), the potential development is expected to generate 392,929 new room nights in a 12-year period, from 2009 through 2020. Table 6-1 summarizes the total new room nights to El Paso.

Table 6-1

Total New Room Nights to Downtown El Paso, 2009-2020

New Room Night Demand Segment	% of Total	Room Nights
Leisure	30%	117,879
Meeting/ Group	30%	117,879
Corporate	40%	157,172
Total	100%	**392,929**

Source: Johnson Consulting

As shown in the table, 60 percent of the total 392,929 new room nights will be accommodated from the leisure and group demand and the remaining 40 percent will be accommodated from corporate demand.

Visitors Spending

Visitor spending is estimated by multiplying the number of person-days (total days visitors spend in El Paso) with average daily spending per person. To translate new attendees and room nights into new person-days, Johnson Consulting developed several assumptions:

- Leisure room nights account for 2.5 persons per room,
- Group/ meeting room nights account for 1.5 persons per room, and
- Corporate room nights account for 1.0 person per room per night.

Based on these assumptions, the 392,929 new room nights translate to approximately 628,700 person-days, as shown in Table 6-2 below.

Table 6-2

Total New Person-Days to Downtown El Paso, 2009-2020

New Room Night Demand Segment	Room Nights	Avrg Room Occupancy	# of Person-Days*
Leisure	117,879	2.5	294,700
Meeting/ Group	117,879	1.5	176,800
Corporate	157,172	1.0	157,200
Total	**392,929**		**628,700**

**Rounded to the nearest hundred.*
Source: Johnson Consulting

As the basis for our average direct spending estimate, Johnson Consulting used an average daily spending per person derived from several sources: the room night projections shown in Table 4-6 in Section 4 of this report, a survey by Destination Marketing Association International (DMAI), and per diem rates as compiled by the US General Services Administration. Table 6-3 summarizes the average daily spending for hotel guests by category of spending in downtown El Paso.

Table 6-3

Downtown El Paso Visitation Spend Data Assumptions of Daily Spending

	Leisure	Meeting/ Group	Corporate
Lodging and Incidentals	$57.70	$70.50	$96.20
Eating and Drinking	36.00	44.00	60.00
Recreation and Entertainment	4.80	-	-
General Retail	27.20	16.60	22.60
Local Transportation	12.30	15.00	20.50
Total Daily Spending per Person	$138.00	$146.10	$199.30
Total Daily Spending per Additional Guest*	$80.30	$75.60	na

**For leisure and meeting/ group visitors who share hotel rooms (i.e., room occupancy in greater than 1.0 person per room)*
Source: Johnson Consulting

As the basis for the visitor spending estimate, it is estimated that leisure guests will spend an average of $138.00 per overnight stay, group/ meeting attendees will spend an average of $146.10 per overnight stay, and corporate patrons will spend an average of $199.30 per overnight stay.

Total direct corporate spending is estimated by multiplying the new person-days or new room nights as shown in Table 6-2 by the average daily spending per person as shown in Table 6-3. The following tables (Table 6-4 through Table 6-6) show the calculation of the leisure, meeting/group, and business visitors' direct spending. As shown in Table 6-5, meeting/ group visitors occupying the additional 1,525 rooms are projected to result in approximately $21.7 million of direct spending from 2009 through 2020, or approximately $1.8 million per year.

Table 6-4

Estimate of Leisure Visitors Spending, 2009-2020

Spending Category	Ave. Spending/ Person Day		# of Room Nights or Person-Days		Total Visitors Spending ($000's)
Lodging and Incidentals	$57.70	x	117,879	=	$6,802
Eating and Drinking	36.00	x	294,700	=	10,609
Recreation and Entertainment	4.80	x	294,700	=	1,415
General Retail	27.20	x	294,700	=	8,016
Local Transportation	12.30	x	294,700	=	3,625
Total Direct Spending	$138.00				$30,466
Average Annual Direct Spending					$2,539

Source: Johnson Consulting

As shown in Table 6-4, leisure visitors occupying the additional 1,525 rooms are projected to result in approximately $30.5 million of direct spending from 2009 through 2020, or approximately $2.5 million per year.

Table 6-5

Estimate of Meeting/ Group Visitor Spending, 2009-2020

Spending Category	Ave. Spending/ Person Day		# of Room Nights or Person-Days		Total Visitors Spending ($000's)
Lodging and Incidentals	$70.50	x	117,879	=	$8,310
Eating and Drinking	44.00	x	176,800	=	7,779
General Retail	16.60	x	176,800	=	2,935
Local Transportation	15.00	x	176,800	=	2,652
Total Direct Spending	$146.10				$21,677
Average Annual Direct Spending					$1,806

Source: Johnson Consulting

As shown in Table 6-5, meeting/ group visitors occupying the additional 1,525 rooms are projected to result in approximately $21.7 million of direct spending from 2009 through 2020, or approximately $1.8 million per year.

Table 6-6

Estimate of Corporate Visitor Spending, 2009-2020

Spending Category	Ave. Spending/ Person Day		# of Room Nights or Person-Days		Total Visitors Spending ($000's)
Lodging and Incidentals	$96.20	x	157,172	=	$15,120
Eating and Drinking	60.00	x	157,200	=	9,432
General Retail	22.60	x	157,200	=	3,553
Local Transportation	20.50	x	157,200	=	3,223
Total Direct Spending	$199.30				$31,327
Average Annual Direct Spending					$2,611

Source: Johnson Consulting

As shown in Table 6-6, corporate visitors occupying the additional 1,525 rooms are projected to result in approximately $31.3 million of direct spending from 2009 through 2020, or approximately $2.6 million per year.

The result of these spending calculations is summarized in Table 6-7.

Table 6-7

Total Direct Spending, 2009-2020 ($000's)

Spend Category	Total Spending
Lodging and Incidentals	$30,232
Eating and Drinking	27,820
Recreation and Entertainment	1,415
General Retail	14,503
Local Transportation	9,499
Total Direct Spending	$83,470
Average Annual Direct Spending	$6,956

Source: Johnson Consulting

As shown in the above table, total spending by new visitors occupying the additional 1,525 rooms are estimated at $83.5 million within the 12-year period from 2009 through 2020, or approximately $7.0 million per year.

Direct spending has "ripple" effects throughout the economy and generates indirect spending, induced spending, and employment. They are calculated at the County level based on multiplier factors that are generally maintained by the US Bureau of Economics (each area has its own set of multipliers). For the purpose of this analysis, Johnson Consulting used a set multipliers based on comparable markets: 1.5979 for total spending (which is the sum of direct, indirect, and induced spending), and 29.74 for employment (29.74 new jobs for each $1 million of spending). The estimated economic impact is shown in Table 6-8.

Table 6-8

Estimate of Economic Impact in ($000's)

	12-year Period (2009-2020)	Annual Average
Direct Spending	$83,470	$6,956
Indirect and Induced Spending	49,907	4,159
Total Spending	$133,376	$11,115
Employment (in FTE jobs)	2,480	210

Source: Johnson Consulting

In summary, the potential hotel rooms are expected to generate a total of $133.4 million in direct, indirect, and induced spending, and 2,480 new jobs within the 12-year period from 2009 through 2020, or approximately $11.1 million in total spending and 210 new jobs annually.

Fiscal Impact Analysis

Portions of this new spending are subject to local taxes that will flow to the City of El Paso, El Paso County, and the State of Texas. These taxes include sales tax and hotel/motel tax. Table 6-9 shows the breakdown of the tax rates, the estimated taxable spending, and the resulting fiscal benefits to the economy.

Table 6-9
Taxes Remitted by Potential Hotel Rooms in El Paso ($000's)

	Rate	12-year Period (2009-2020)	Annual Average
Hotel Tax			
City	0.07	$2,116	$176
County	0.025	756	63
State	0.06	1,814	151
Subtotal	0.16	$4,686	$390
Sales Tax			
City	0.01	$302	$25
County	0.005	151	13
State	0.0625	1,889	157
Municipal Transit - Sun City Area Transit Tax	0.005	151	13
Subtotal	0.0825	$2,494	$208
Total Fiscal Impact		**$7,180**	**$598**

Source: City of El Paso, Johnson Consulting

As shown in the table, fiscal benefits of the new spending associated with the potential hotel rooms is expected to total to $7.2 million during the 12-year period, which includes $4.7 million from hotel/ motel tax and $2.5 from sales tax. Of the total $7.2 million tax revenue, $2.4 million will benefit the City of El Paso, $907,000 to El Paso County, $3.7 million to State of Texas, and $151,000 to Sun City Area Transit Authority.

Annual fiscal benefits of the new rooms are estimated to amount to $598,000, which includes $390,000 from hotel/ motel tax and $208,000 from sales tax. Of the total $598,000 tax revenues, $202,000 will benefit the City of El Paso, $76,000 to El Paso County, $309,000 to the State of Texas, and $13,000 to Sun City Area Transit Authority.

Summary of Potential Hotel Impact

The result of the above analysis is summarized as follows:

- The potential hotel rooms are projected to generate 392,929 new room nights in 12-year period from 2009 through 2020, or 32,744 new room nights annually.

- Average daily spending is estimated to be $138.00 per leisure visitor, $146.10 per meeting/ group visitor, and $199.30 per corporate visitor. Weighted average daily spending: $164.95 per person per day.

- These new person-days are projected to result in direct spending of $83.5 million during the 12-year period, or $7.0 million annually.

- Including indirect and induced spending, total economic impact is expected to be $133.4 million during the 12-year period from 2009 through 2020. Additionally, these new spending will generate approximately 2,480 jobs. Annual economic impact is expected to include $11.1 million in total spending and 210 new jobs.

- This amount of spending is projected to bring a total of $7.2 million in fiscal benefits in the 12-year period from 2009 through 2020, which include:
  - $3.7 million to the State of Texas,
  - $907,000 to El Paso County,
  - $2.4 million to the City of El Paso, and
  - $151,000 to Sun City Area Transit Authority.

- Annual fiscal benefits are projected to amount to $586,000, which includes:
  - $309,000 to the State of Texas,
  - $76,000 to El Paso County,
  - $202,000 to the City of El Paso, and
  - $13,000 to Sun City Area Transit Authority.

Conclusions

As previously indicated, Johnson Consulting has determined the El Paso market could absorb up to 1,525 new hotel rooms in the next several years. In addition, we have also determined downtown El Paso presently needs an infusion of new rooms just to serve the currents needs of the convention center and that those rooms should not be of the economy/budget variety and preferably not without food and beverage services. More specifically, an additional 485 rooms of the mid scale with F&B, full service or boutique varieties would need to be added to El Paso's existing 469 downtown hotel rooms in order to bring downtown El Paso in line with the average supply of downtown hotel rooms (i.e. 954 rooms) for the cities to which we have compared El Paso in this study.

Accordingly, Johnson Consulting recommends El Paso's primary goal should be on developing those rooms and at a minimum and as soon as possible developing enough to close the gap between El Paso's current number of downtown rooms and the average number of downtown rooms in the other cities to which we compared

El Paso. Using the data in Table 5-7, the addition of the minimal number of rooms needed to meet this goal (i.e. 450 rooms) would require over $30,000,000 in incentives. For instance, as shown in Table 5-7, bringing a 150 room mid scale with F&B hotel and a 300 room full service hotel would eliminate nearly all of the aforementioned 485 downtown room deficit and based upon our projections this would require nearly $32 million in incentives. The prompt addition of these rooms would serve to more fully utilize some of the demand generators currently located in downtown El Paso, in particular, the convention center, thereby making it easier to market this facility to groups that could then be fully housed in downtown El Paso.

Since the addition of the aforementioned rooms would enhance the convention center business, the secondary goal of increasing downtown demand generators as also noted in our report, would in part begin to be met. Improved convention business should spur demand for and the opening of new restaurants, clubs and related businesses. Nevertheless, further efforts in the form of incentives will be needed to increase the quantity, quality and variety of downtown demand generators. The nature and amounts of those incentives will depend on the specific choices made in the implementation of priorities from the El Paso Downtown 2015 Plan as well as decisions made to determine the dollar amount of incentives that may be available. However, as previously stated, there is an immediate need for between $30 and $40 million in incentives just to address the minimum immediate hotel room needs in Downtown El Paso.

In conjunction with achieving these first two goals, the final goal will be to increase El Paso's inventory of hotel rooms to reach Johnson Consulting's projections for 1,525 new rooms in the next several years. Assuming 450 new downtown rooms have been created as indicated above, this would leave a need for another 1,075 new rooms. If El Paso sought to match the number of rooms in downtown Ft. Worth (the city currently having the largest number of downtown rooms at 1,400 to serve a city of almost the same population as El Paso--see Table 4-3), 481 of the 1,075 additional rooms would need to be located downtown when added to the 919 downtown rooms already discussed (i.e., the 469 rooms currently in downtown El Paso and the 450 new rooms previously recommended). These additional downtown rooms will probably need varying degrees of incentives, but it is supposed that as the initial influx of rooms downtown becomes established the need for incentives will decrease.

While some of the remaining 594 rooms (from our original projected need for 1,525 rooms) we believe are needed in El Paso could certainly be located in the downtown area, we believe the majority could be located in other areas of El Paso. We also believe it less likely these additional hotel offerings will need incentives. In addition, as the hotel room inventory increases to reach the level we project, El Paso will come to achieve the full economic impact projections described previously in this Section.